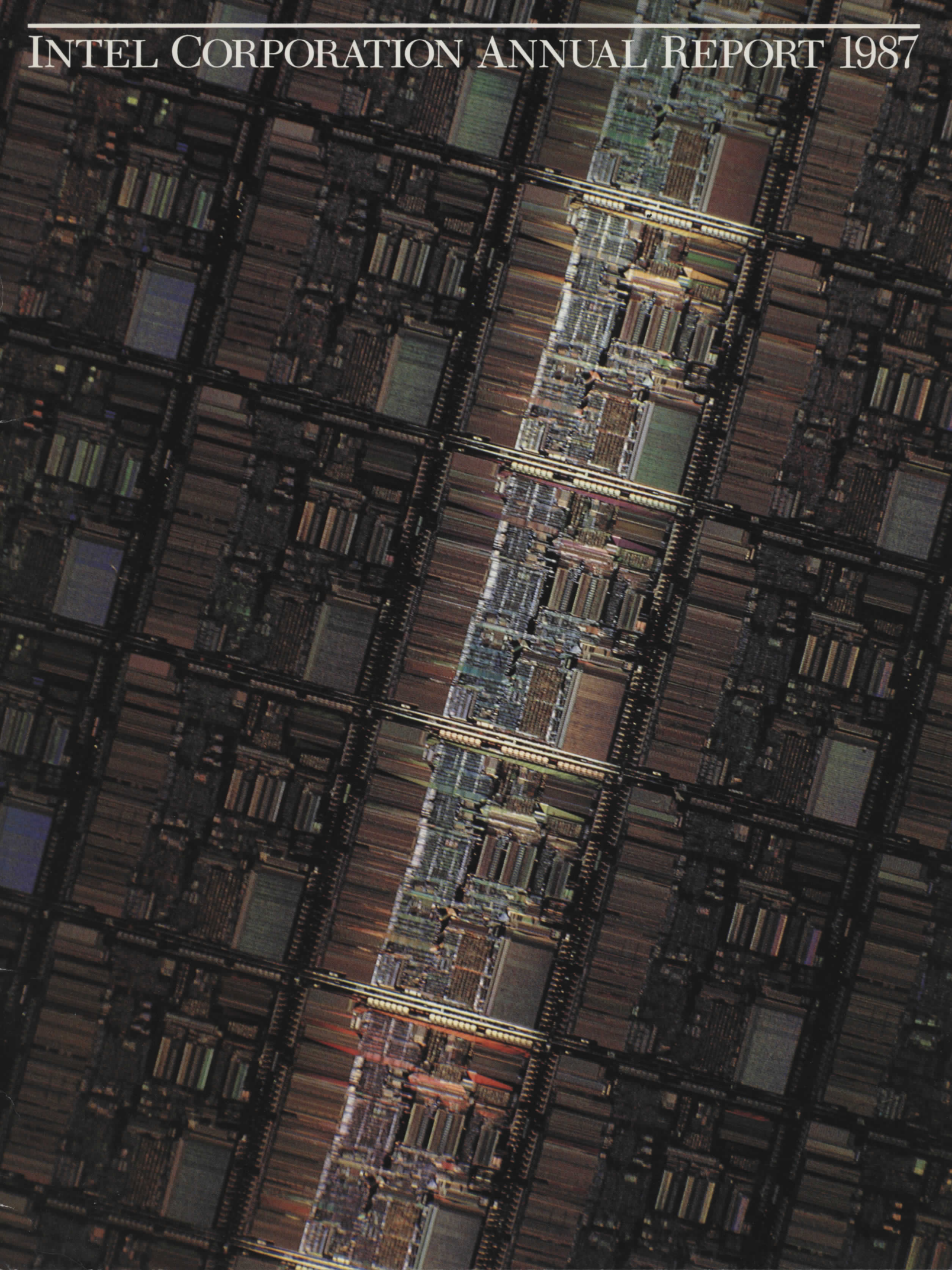


INTEL CORPORATION ANNUAL REPORT 1987



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Cover photo
Intel's most advanced microprocessor, the 80386, contains 275,000 transistors. It is capable of running DOS and UNIX¹ operating systems simultaneously and also takes advantage of the enormous software base developed for the 8086 family of microprocessors.

¹UNIX is a registered trademark of AT&T

Financial Highlights

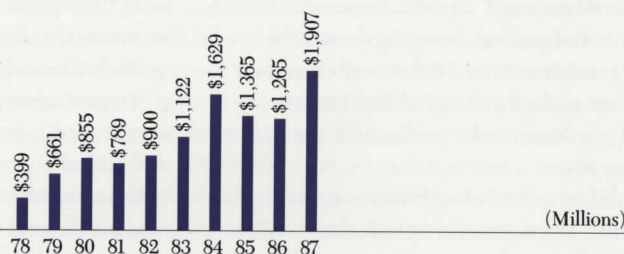
(Dollars in thousands—except per share amounts)

INTEL CORPORATION

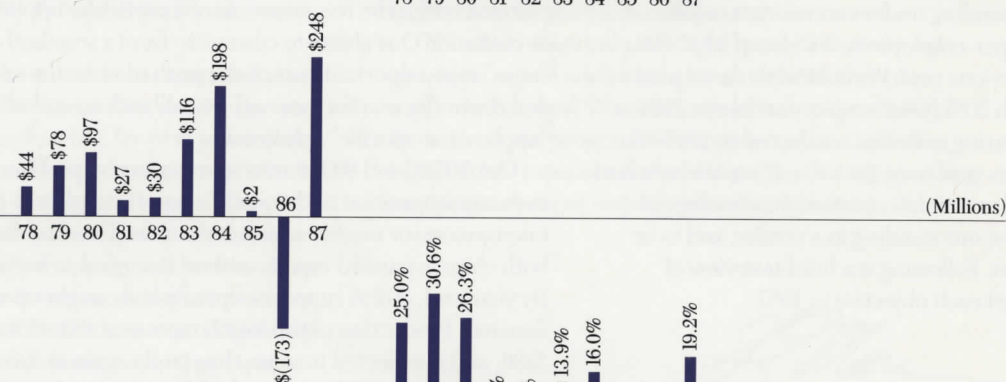
		1987	1986	1985
Net Revenues		\$1,907,105	\$1,265,011	\$1,364,982
Income (Loss):	Before taxes and extraordinary items	\$ 287,886	\$ (174,634)	\$ (5,448)
	Net	\$ 248,055	\$ (173,165)	\$ 1,570
	Net per share	\$ 1.38	\$ (.99)	\$.01
Return on revenues:	Before taxes and extraordinary items	15.1%	(13.8%)	(.4%)
	Net	13.0%	(13.7%)	.1%
Return on average equity		19.2%	(12.8%)	.1%

See page 28 for a description of our industry segment reporting.

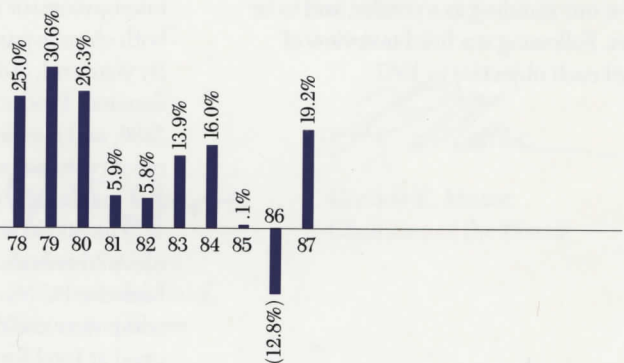
NET REVENUES



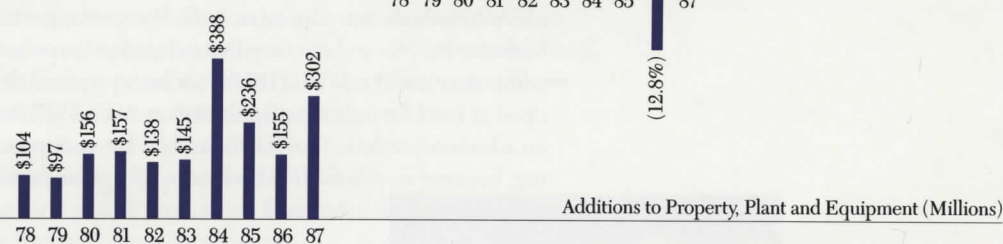
NET INCOME (LOSS)



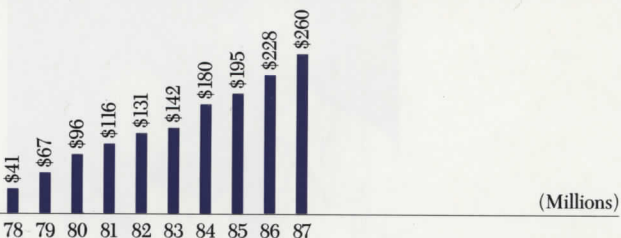
RETURN ON AVERAGE EQUITY



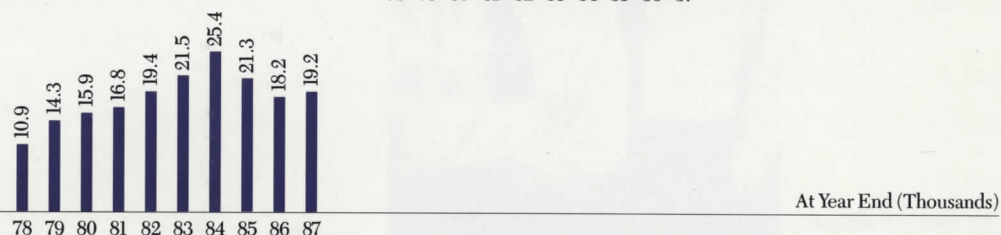
CAPITAL ADDITIONS



RESEARCH AND DEVELOPMENT



EMPLOYEES



1987 was a strong revenue year for Intel. We returned to profitability after two tough years, and we set revenue and net income records. Revenues climbed 51% from 1986 and net income totaled \$248 million, a dramatic swing from the \$173 million loss recorded in 1986.

This turnaround was driven by a new generation of desktop computers based on Intel's advanced microprocessors. The 1985-86 period was bad for Intel's sales, but it was very good in another respect: our customers were busy designing new systems based on the many advanced Intel products introduced during those two years. In 1987, these new systems began coming into the market, boosting demand for both microcomputer components and the microcomputer modules and systems we make for Original Equipment Manufacturer (OEM) customers who prefer to buy at higher levels of product integration.

Intel's employees did an outstanding job of responding to this increase in demand. They increased production swiftly while also keeping spending under control. As a result, our annual revenue-per-employee was a record \$102,000, up 59% from the previous year. We achieved record total revenues in 1987 with 20% fewer employees than in 1984, a result of the restructuring activities conducted in 1985-86.

Our objectives this year were the same three we have had since 1985: to extend our architectural and technological leadership, to improve our standing as a vendor, and to be a better manufacturer. Following is a brief overview of progress made toward each objective in 1987.

Keeping our position as the architectural and technological leader in microcomputers means we have to provide a steady stream of advanced, high quality products when the market needs them. The productivity of our design effort is therefore critically important. Thanks to new methods and new computer-aided design technology, we're able to create chips faster, less expensively and with better quality—even though the complexity of those chips continues to rise rapidly. Our new 82385 cache controller, for example, a complex CHMOS logic circuit containing about 215,000 transistors, went from product specification to its first \$1 million of revenues in just 46 weeks, a pace we would have thought unlikely a few years ago.

Improved design tools are also giving us new flexibility in serving our customers. A good illustration of this is the embedded controller market, another area where Intel is both an architectural and technological leader. We are now able to offer not only standard controllers, but also versions customized for the requirements of a particular application or customer. Our ability to customize from a standard chip "core" is an important part of our push to serve the embedded controller market more effectively with so-called "application-specific" solutions.

Our 80286 and 80386 microprocessors helped Intel maintain its position as the world's largest supplier to the microprocessor market segment this year. Demand for both chips expanded rapidly and we struggled to keep up. By year-end, 80286 supply essentially had caught up with demand. Production of the 80386 increased sixfold versus 1986, and is expected to more than triple again in 1988. To meet customer needs, we are doubling the number of factories making the 80386.

The 80386 was also the basis of several new Intel modules and systems introduced in 1987. We are supporting both the PC bus architecture that is standard in personal computers and the MULTIBUS® architecture first developed at Intel for industrial applications. MULTIBUS II, an advanced architecture for 16- and 32-bit multiprocessing, became an official IEEE standard this year, joining MULTIBUS I as a standard.

We made good progress this year toward our second objective of being our customers' vendor of choice. We have been working on product quality, delivery performance and other measures of customer service. The results are beginning to show up in awards from customers such as Ford, AT&T, Robert Bosch, NEC and others. As a result of our high product quality, more and more customers are now eliminating incoming testing of our shipments to them. Our delivery performance improved this year as our factories did a good job of producing predictably and we took care not to overcommit in spite of strong customer demand. The major blemish was a testing problem early in the year that reduced availability of the 80386 for a time and made us scramble to recover.

This year, 39% of our sales were overseas. This makes us one of the largest exporters of electronic products in the United States. We have continued to build our sales and applications engineering forces outside the United States, and have improved our ability to handle quality assurance and warehousing locally.

Our third objective is to be a world class manufacturer. Like our other objectives, this is not a fixed target; one year's progress merely provides the baseline for next year's goals. In 1987, good progress was made. Component unit volume increased 28% year-to-year, while costs dropped along traditional learning curve lines. This rapid unit volume increase came both from our own plants and increased use of subcontractors for production of more mature products.

Over 50% of this year's \$302 million in capital spending went for new generations of machinery and equipment to keep our manufacturing operation up-to-date. More than 80% of our chips are made with processes having a minimum feature size of 1.5 micron or less. About half of our production is now on cost-effective six-inch-diameter wafers, and about one-third of our output is from chips made with our high performance, low power CHMOS processes. In our systems business, greater than 90% of all new products are being developed on state-of-the-art surface mount printed circuit board technology. To provide production capacity, we have one surface mount production line running in Oregon and have committed capital to install surface mount production lines in both our Puerto Rico and Singapore plants.

For additional detail on our six operating groups' progress against corporate objectives in 1987, please see pp. 6-19 for reports from each group.

In 1988, we are adding a fourth corporate objective that focuses on Intel's people. Our continuing objective is to make sure Intel is an exciting, rewarding place to work. We will be examining existing programs and starting new ones to work toward this goal.

At our 1988 annual meeting, Ed Gelbach will retire from the Intel Board of Directors after a distinguished career with the company. Ed has been a major figure in the development of Intel and we want to express our thanks for his contributions over the years. Les Vadasz, senior vice president and general manager of Intel's Systems Group, is the Board's nominee to replace Ed as a director.

The October 1987 stock market crash injected a new element of uncertainty into everyone's outlook. So far, we have seen no impact on our business from this event. In fact, fourth quarter bookings set a new record.

The electronics industry had a good 1987, and most observers expect additional growth in 1988. Our plan supports that view. We will invest heavily in Intel's future through capital programs to expand capacity, as well as higher R&D expenses and additional marketing spending to support a year of major product introductions.

A.S. Grove

Andrew S. Grove
President and Chief
Executive Officer

G.E. Moore

Gordon E. Moore
Chairman of the Board



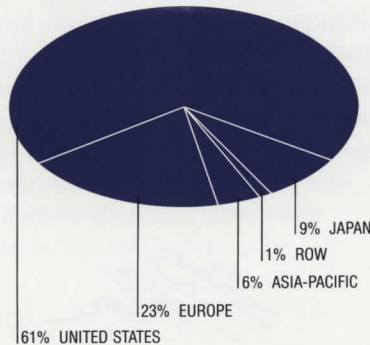
Andrew S. Grove, left
Gordon E. Moore, right

HISTORY

Intel was founded in 1968 to pursue the potential of integrating large numbers of transistors into silicon chips. The company quickly acquired a reputation as an innovator, creating chips such as the microprocessor, dynamic RAM (Random Access Memory), EPROM (Erasable, Programmable Read-Only Memory) and others that revolutionized electronics by making possible small, inexpensive, powerful computing systems.

The company originally flourished as a supplier of semiconductor memory for mainframe computers and minicomputers. Over time, though, the face of computing, and Intel, have changed. Microcomputers are now the largest, fastest growing segment of computing, and Intel is a leading supplier of microcomputers. Today they can be found in thousands of applications ranging from personal computers and automobiles to automated machine tools and military systems.

GEOGRAPHIC BREAKDOWN OF SALES



Source: Intel

MAJOR CUSTOMERS

Intel sells its microcomputer components, modules and systems directly to companies that incorporate them into their systems. About one-third of our revenues comes from sales to electronics distributors who re-sell to tens of thousands of customers, allowing Intel to reach a far broader customer base. In the past few years, we have also begun selling some new "personal computer enhancement products" through a network of over 1500 retail computer stores.

MAJOR PRODUCTS

Microprocessors are the central control units that direct the processing of data in microcomputer systems.

Microprocessor peripherals work under the control of microprocessors, handling specific functions such as floating point mathematics, control of disk drives, display of graphic material and many others.

Microcontrollers are microcomputers preprogrammed to perform specific functions in automobile engines, electric motors, appliances, VCRs and thousands of other systems.

EPROMs store programs for microprocessors and microcontrollers.

Microcommunications chips direct the transfer of data among microcomputer systems tied together to form networks.

ASICs (Application-Specific Integrated Circuits) are semi-custom chips created by customers using Intel design tools and "cells" as building blocks. Intel manufactures these chips exclusively for the customers that design them.

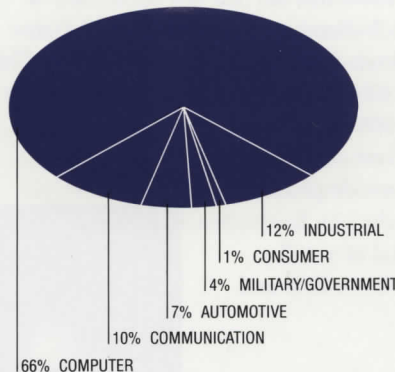
OEM Modules and Systems are based on Intel components and sold to OEM (Original Equipment Manufacturer) customers who integrate them into their products.

Personal Computer Enhancement Products are add-in boards and components sold through retail computer stores to PC users who want to expand the memory or processing power of their systems.

PRINCIPAL LOCATIONS

Intel's principal U.S. locations are Santa Clara, Livermore and Folsom, California; Portland, Oregon; Phoenix, Arizona; and Albuquerque, New Mexico. Major international sites are in Paris; Munich; Swindon, U.K.; Tsukuba, Japan; Hong Kong; Penang, Malaysia; Singapore; Manila and Puerto Rico. Intel has 94 sales offices in 21 nations and also sells through electronics distributors in 31 countries.

PERCENT OF OEM SALES BY MARKET SEGMENT



Source: Intel

IMPLEMENTING OUR CORPORATE OBJECTIVES

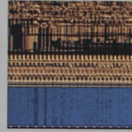
For the past three years, Intel has had the same three corporate objectives:

To be the architectural and technological leader of our industry. This has been traditionally an area of strength for Intel. Our objective has been to enhance our position.

To be our customers' vendor of choice. Our customers are using fewer vendors and demanding more from them than ever before. To succeed, we have to keep improving product quality, on-time delivery and other measures of customer service.

To be a world class manufacturer. The complexity of our products continues to rise steadily, and so must our efficiency as a manufacturer.

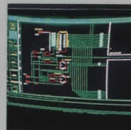
Each year there are specific short-term goals to be accomplished under the umbrella of the three objectives. On the following pages, we have asked the leaders of our six operating groups to talk about how their organizations worked to implement these objectives in 1987.



**MICROCOMPUTER
COMPONENTS GROUP**



SYSTEMS GROUP



**ASIC COMPONENTS
GROUP**



**COMPONENTS
TECHNOLOGY AND
MANUFACTURING
GROUP**



**SALES AND
MARKETING GROUP**



**ADMINISTRATION
GROUP**

Intel introduced the first microprocessor in 1971, creating a new market and forever changing the face of computing. Since then, our microcomputer architectures have set the standard, and in 1987 65% of the 16- and 32-bit microprocessors and 40% of 8- and 16-bit microcontroller shipments were based on Intel's architectures. ■ Perhaps our most significant achievements this year were the improvements we made in our development capability by advancing our state-of-the-art design technology. Due to rapid changes in the businesses served by our customers, time-to-market is the difference between success and failure and is often measured in weeks. By developing advanced computer-aided design tools, and using modular design techniques based on ASIC technology, we have consistently reduced the time it takes to design our chips, even as the complexity of our products has risen. This allows us to quickly design and develop working prototypes of complex, high-density chips like the 80C196 and other new products. ■ The 80386, our 32-bit microprocessor, introduced in October 1985, has been successful beyond our most optimistic forecasts. This was due to the advanced features of the product, as well as its compatibility with the 80286 and 8086. From day one, our 386 customers could utilize an enormous application software base for this architecture. As a result, 80386 design wins have increased steadily. These design wins go well beyond the traditional personal computing application. In 1987, the 386 was designed into minicomputers, parallel processing systems and engineering workstations, as well as artificial intelligence, telecommunications, and military applications. ■ Three of PC Magazine's 1987 Awards for Technical Excellence went to 386-based products. Compaq's DESKPRO 386/20¹ was named desktop computer of the year, the COMPAQ PORTABLE 386¹ was selected as 1987's best portable com-

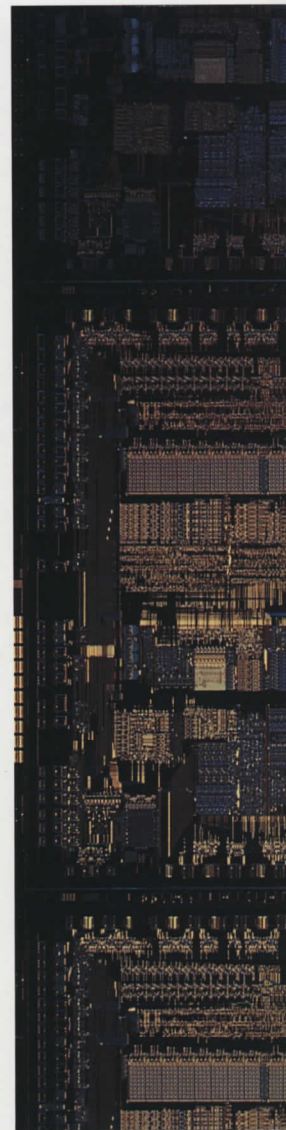
David H. House

Larry H. Hirsch

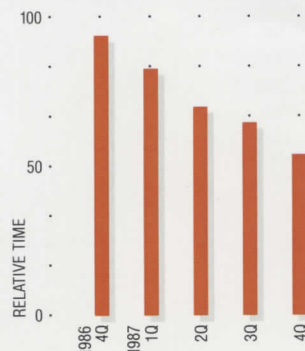
puter, and Microsoft's Windows/386 was named the best computing environment. These three products are among the over 100 386-based products introduced so far. Design

wins for the 386 now exceed 400. ■ In 1987, Intel made a major push to strengthen our position in the intensely competitive microcontroller market segment and we recognized the need to go beyond our standard product offerings. Our strategy is to expand our marketshare utilizing our advanced design technology to offer proliferations of our architectures based on standard microcontroller or microprocessor cores. These proliferations are called application-specific standard products (ASSPs) and application-specific integrated circuits (ASICs). ■ Along with our microprocessor and microcontroller product lines, we offer a full array of VLSI peripherals and coprocessors. The 386 was bolstered by the 1987 introduction of the 82380, 80387 and 82385—three highly-integrated VLSI components that combine with the 386 to form a powerful, highly-integrated computing environment. ■ This year we maintained our position as the world's #1 supplier of EPROMs despite active competition from foreign competitors. We increased volume shipments of 1 megabit and 512K EPROMs, the latest in memory technology. We also introduced several new CHMOS products, including a 128K EPROM and a new version of the 256K EPROM. Finally, we solidified our position in the automotive marketplace, as evidenced by the Q1 Quality Award we received from Ford Motor Company. ■ In 1987, we did a good job of extending our architectural and technological leadership, and the progress we made has left us with excellent momentum going into 1988.

Robert J. ...



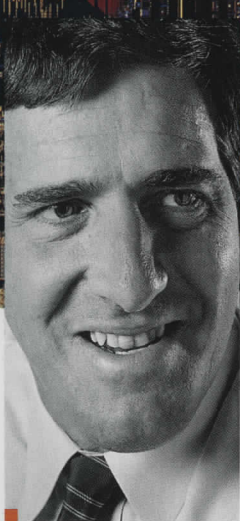
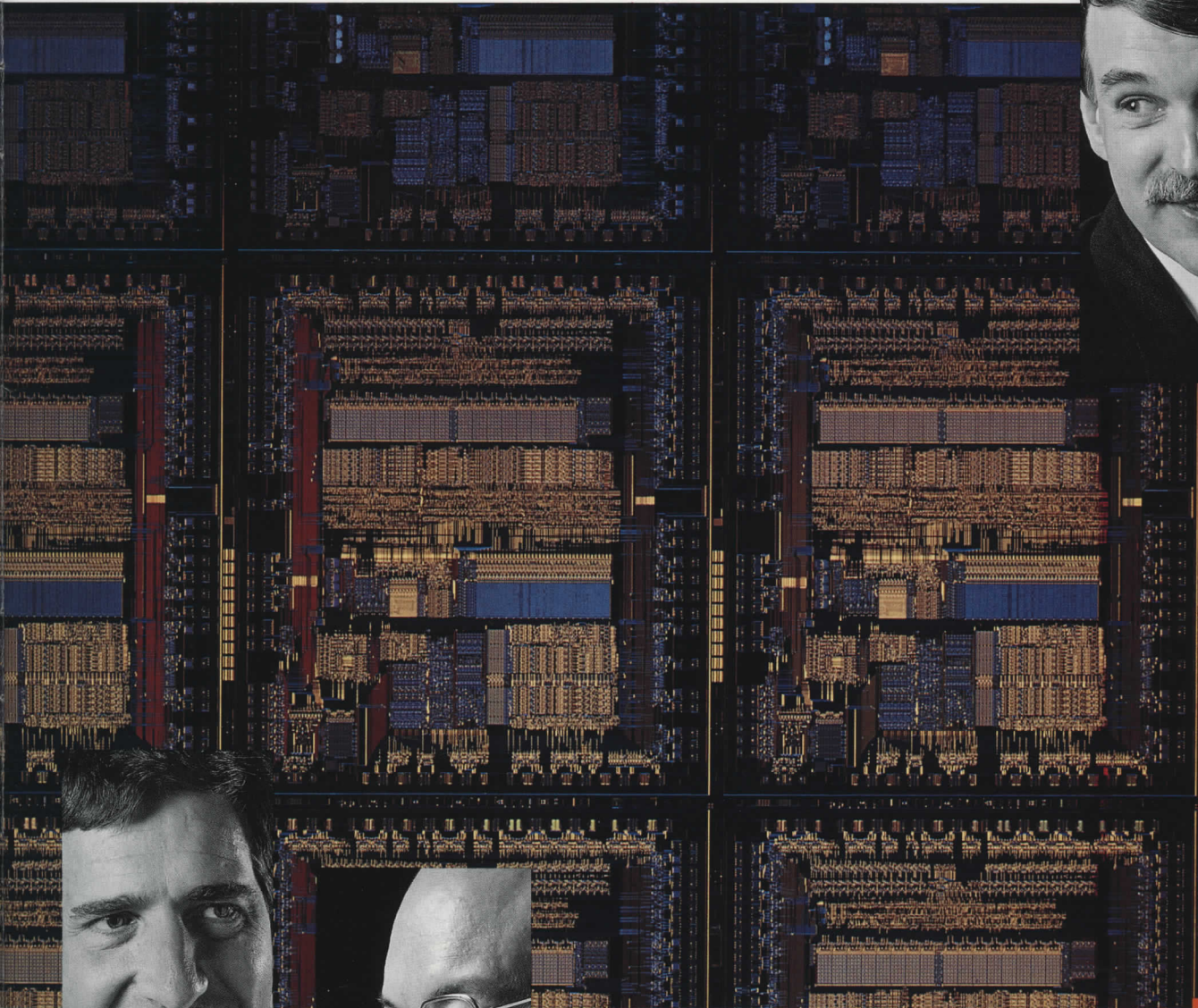
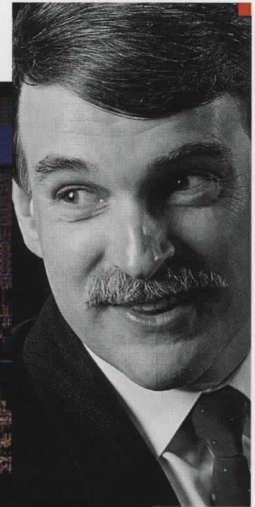
PRODUCT DEFINITION
TO ENGINEERING SAMPLE



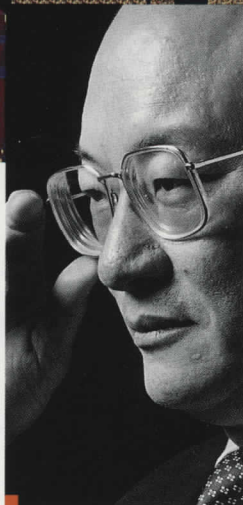
The combination of CAD tools and emphasizing "doing it right the first time" have contributed to a significant reduction in the time from product definition to engineering sample.

¹COMPAQ DESKPRO 386/20 and COMPAQ PORTABLE 386 are trademarks of Compaq Computer Corp.

A 13-year Intel veteran, David L. House, 44, is senior vice president and general manager of the Microcomputer Components Group.



Senior Vice President Laurence R. Hootnick, 45, became general manager of operations for the Microcomputer Components Group in late 1987 after three years as head of sales and marketing. He has been with Intel since 1973.



Born in Shanghai, Albert Yu, 46, holds a doctorate in electrical engineering from Stanford University. He is vice president and general manager of development for the Microcomputer Components Group. He has been with Intel for 12 years.

The 80C196 microcontroller, introduced in October 1987, is the highest performance 16-bit microcontroller. It is a single-chip solution for controlling real-time and computation-intensive applications such as disk drives and printers. It is also ideally suited for controlling the motor functions found in automotive and robotic applications.



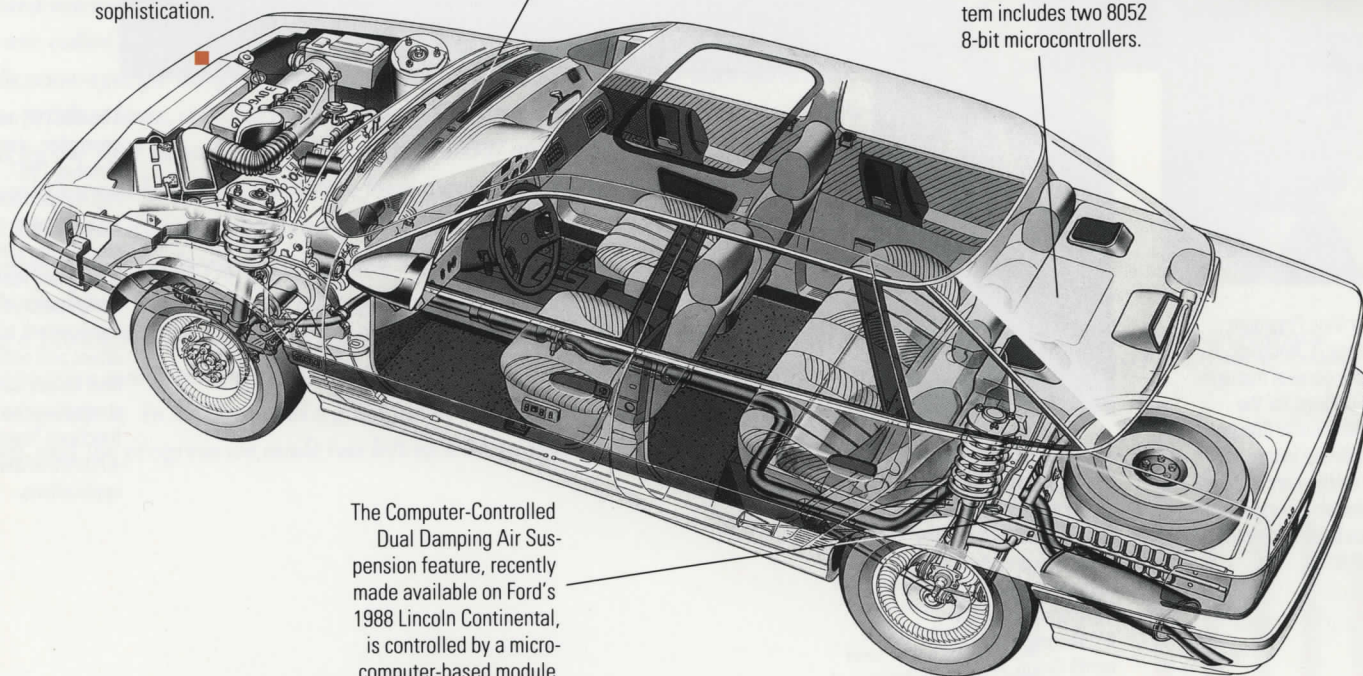
Accuracy, programmability and flexibility are key benefits the Intel 80286 and 80186 bring to Tektronix' new 11000 Series Digitizing Oscilloscope family.

Intel's microcontroller products are helping customers like Ford Motor Company achieve new levels of product sophistication.

Intel's 8061 16-bit microcontroller, 8763 EPROM memory and 81C61A RAM I/O are contained in an engine control module in Ford automobiles.

The system is used on selected engines in all Ford car lines and truck series to control engine performance and fuel economy.

The anti-lock braking system included in some luxury Ford and Lincoln cars is designed to prevent braking-induced wheel lock on any road surface. The braking system includes two 8052 8-bit microcontrollers.



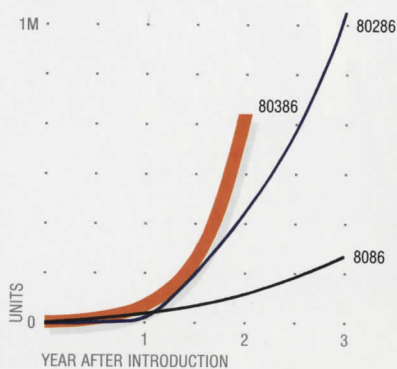
The Computer-Controlled Dual Damping Air Suspension feature, recently made available on Ford's 1988 Lincoln Continental, is controlled by a microcomputer-based module containing an Intel 8797 16-bit microcontroller.



The COMPAQ DESKPRO 386/20 combines the Intel 20MHz 386 microprocessor with an advanced systems architecture utilizing the Intel 82385 cache memory controller. The use of the 82385 provides fast retrieval of frequently accessed data stored in cache memory.

Intel's most advanced microprocessor to date, the 80386, has witnessed tremendous acceptance in the marketplace due to its ability to leverage the software base created by the previous generation products—Intel's 8086 and 80286.

PRODUCT RAMP



Based on the Intel 80386 architecture, GRiD Systems' 1530 laptop computer puts the power of a full 32-bit system in a battery-capable portable weighing just 12 pounds, providing the field professional with a new level of performance in laptop computers.



Intel's Systems Group broadens the company's participation in the microcomputer marketplace by making it possible for customers to buy Intel architectures at the system level. The group's products include single board computers, software and hardware development tools, personal computer enhancements, networking products and scientific computers. ■ The core of our systems business is providing OEM (Original Equipment Manufacturer) customers with system level building blocks they can integrate into their higher-level systems for the office, factory, laboratory

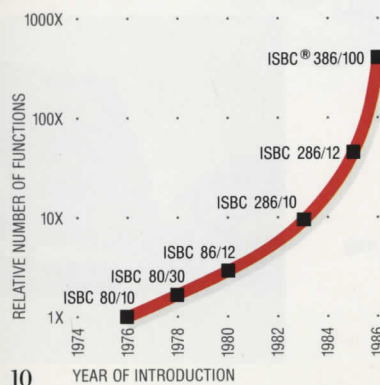
and other environments. ■ In addition to our core OEM business, Intel sells a variety of systems products either directly or through retail channels. These products provide a variety of benefits to the user: They enhance the power of personal computers, provide interconnection between microcomputers and mainframes, and bring supercomputer performance to scientific applications. ■ In 1987, we introduced 80386-based products into almost all sectors of our business. We offered a tool set for 386-based system developers; for OEMs we introduced several 386-based MULTIBUS and AT¹ bus products and logged several major design wins for MULTIBUS products. In the retail channel we began shipping products aimed at upgrading PC and PC XT¹ personal computers to 32-bit capability; and we shipped our first 386-based scientific computers. ■ These products created an upsurge in demand and a challenge for our manufacturing operations. The challenge for our operations was two-fold: absorb the many new products and technologies and deliver to a rapidly increasing demand. ■ Manufacturing volumes increased by more than 60% over the previous year. We were able to maintain prompt delivery schedules without substantially adding to our headcounts. Our three manufacturing operations in Oregon, Puerto Rico and Singapore did an excellent job, as did our support and service organization. ■ As a result, we had an excellent year and built strong sustainable positions in the markets in which we participate. Today, we are the largest supplier of 386-based microcomputers in the OEM market. ■ We expect to continue to expand our product offerings in 1988 so our customers can reap the benefits of microcomputer technology.

Keith I. Thomson

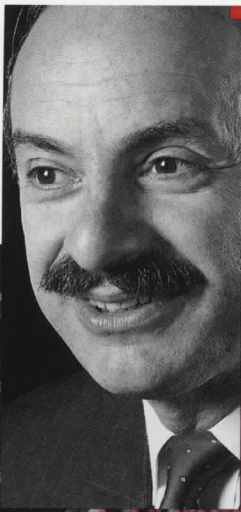
Using an automated storage and retrieval system at Intel's Puerto Rico facility has improved productivity by an estimated factor of 5 over manual methods. The system locates and removes the prescribed parts from shelf locations and adjusts inventory accordingly.

¹PC AT and XT are trademarks of International Business Machines

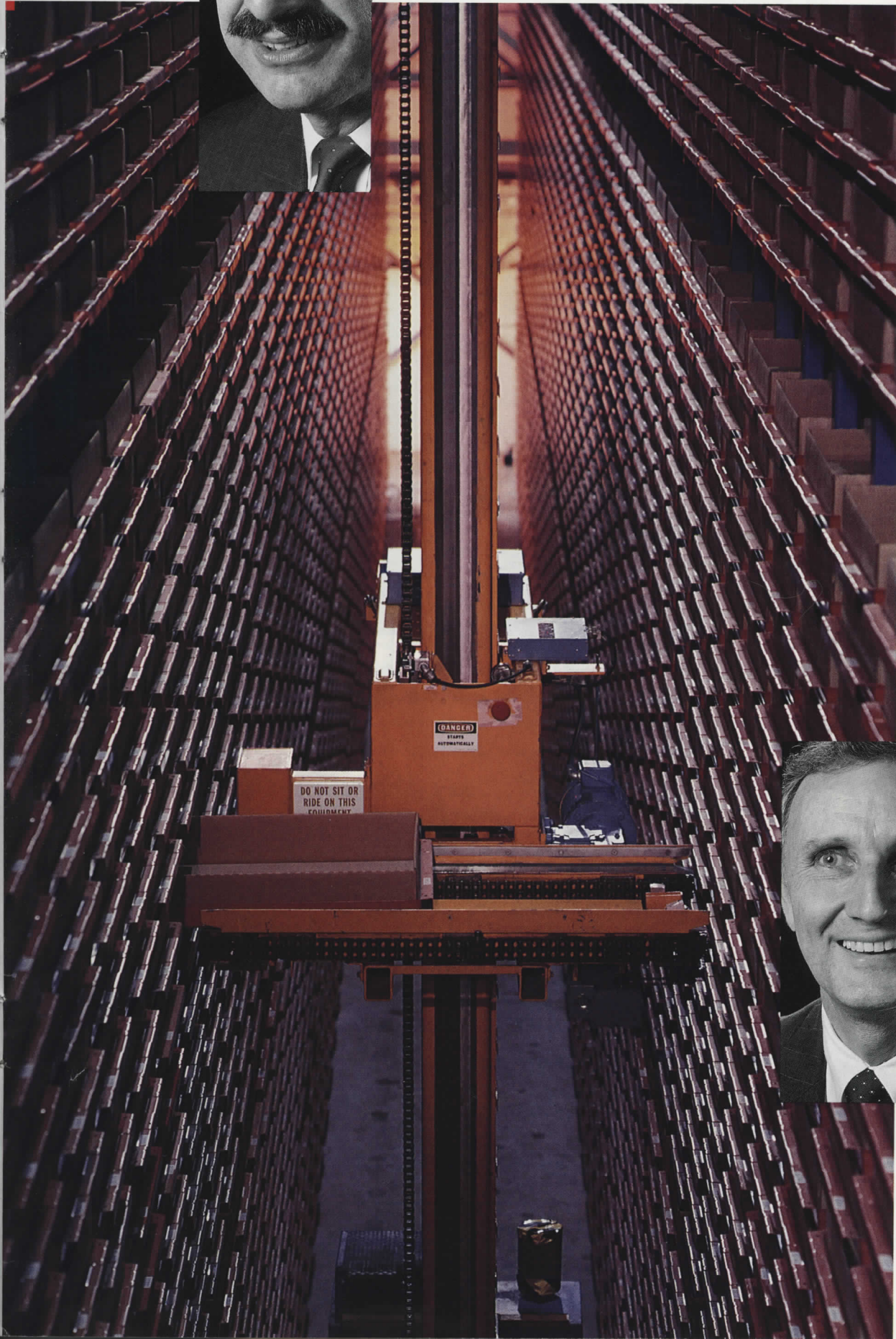
GROWTH OF BOARD COMPLEXITY



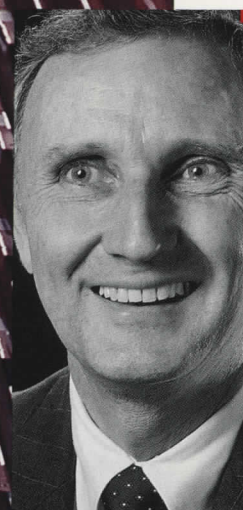
Board complexity, determined by number of functions on a board, has increased dramatically over the last 2 product generations. ASIC capabilities and surface mount technology enable boards at this level of complexity to be manufactured cost-effectively.

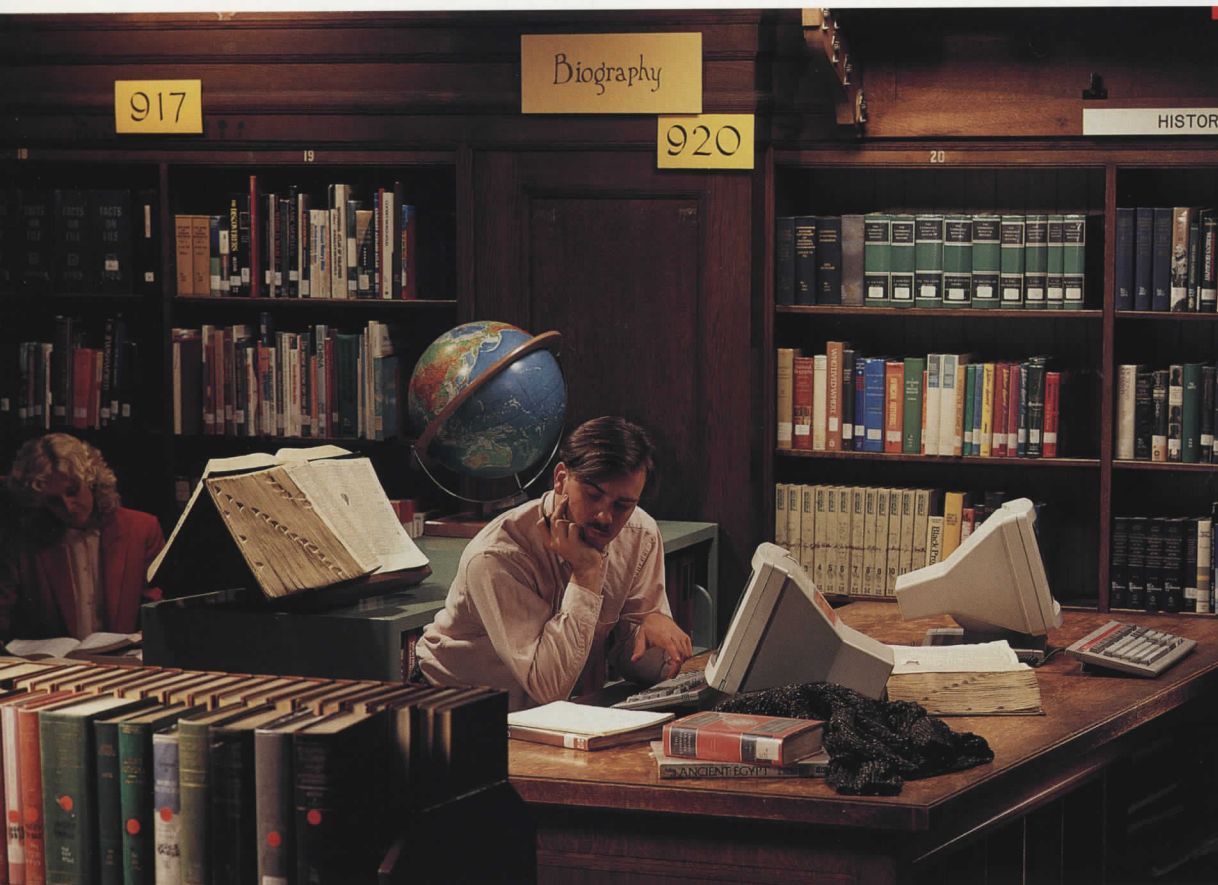


Senior Vice President of Intel and General Manager of the Systems Group, Leslie L. Vadasz, 51, has been with Intel since 1968 in a variety of senior management positions.



Keith L. Thomson, 48, is a vice president of Intel and general manager of operations for the Systems Group. He joined Intel in 1969.





Intel systems are helping make library card catalogs a thing of the past. Carlyle Systems Inc., of Emeryville, California, assembles easy-to-use library automation systems. It uses between 4 and 8 Intel MULTIBUS I boards, and Intel iRMX® 86 and iRMX 286 operating systems provide real-time database retrieval essential to the system.

Intel's latest MULTIBUS II boards are used by Singer Link-Miles, (Lancing, West Sussex, England), in its line of commercial aircraft flight simulators. In excess of 300 MULTIBUS II boards are used in each simulator to train pilots through the use of a simulated flight program.

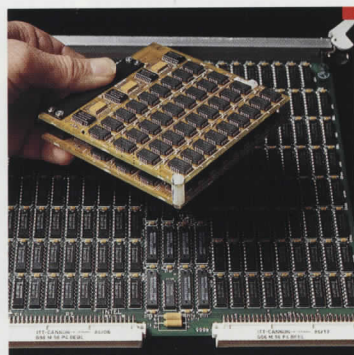
Surface Mount Technology (SMT), enables chips to be densely packed onto both sides of a printed circuit board.

Combined, the two smaller SMT memory boards contain the equivalent (4 MB) memory on the full size board in one-quarter the space. Intel's surface mount capability, pioneered at our Oregon facility, is now in production in Puerto Rico and planned for Singapore.

Intel's microcomputer-based OEM systems are produced in large volumes at our plant in Puerto Rico. More than 200 employees staff this advanced facility which is supported by an automated storage and retrieval warehouse and worldwide purchasing and distribution.

Since 1985, Intel's Personal Computer Enhancement Operation (PCEO) has provided users with PC add-in products including Above™

Boards for expanding memory, and math coprocessors to speed numeric processing. Two of PCEO's latest offerings are the Inboard™ 386, which upgrades existing IBM PC ATs and compatibles to 386 power, and the Inboard™ 386/PC, which brings 386 performance to PCs and XT's.

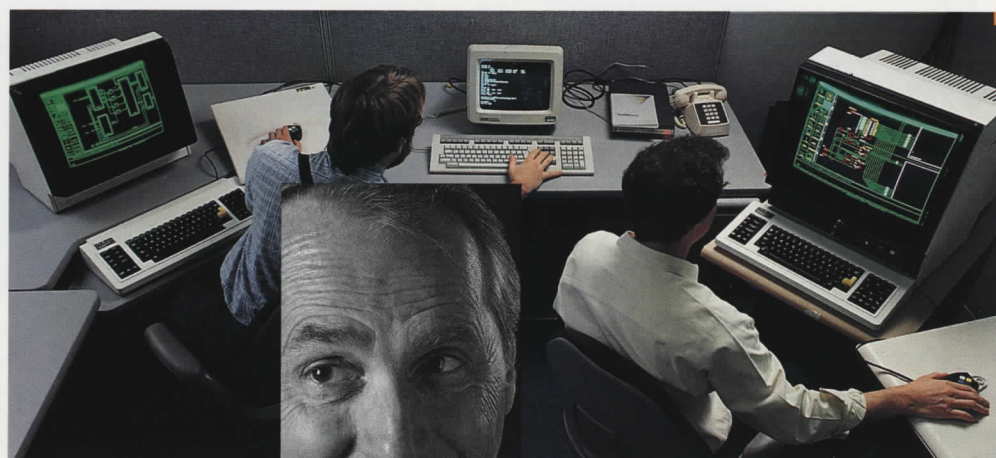


This year Intel made progress in honing our application-specific integrated circuit capabilities. We put some fundamental elements into place that will serve as a foundation for our ASIC operation in the future. ■ Our entry into the ASIC marketplace has given us a new way to deliver Intel architectures to our customer base. At each of our design centers in Santa Clara, Boston and Swindon, U.K., Intel's ASIC capabilities allow customization of products for our customers' specific needs. For example, customers may develop a complex custom circuit by beginning with a microprocessor core and then modifying it for specific tasks. ■ A significant achievement was that, through the use of our own ASIC tools, some of our own operations brought new application-specific standard products to the marketplace. Intel can start with a standard product and derive several different ASIC offerings that are tailored for specific types of applications. ASIC capabilities also allow Intel to prototype designs, such as complex peripherals, and get them to the market faster. ■ Our cell-based products—semicustom chips based on microprocessors and industry-standard embedded controllers—gained acceptance from important customers this year. For example, IBM based a custom printer controller for the Proprinter II¹ on Intel's 80C51 microcontroller. ■ Intel's gate array product line is our youngest ASIC offering. A library of well-characterized 1.5 micron gate arrays, acquired from IBM as part of a technology exchange, is up and running. We currently have active gate array designs underway at each of our three design centers, and we began delivering prototypes to several customers in the third quarter. ■ Our line of erasable programmable logic devices (EPLDs), based on Intel's industry-leading EPROM technology, is beginning to make progress. In 1987 we introduced the 5CBIC, a highly-integrated bus interface controller, and the 5AC312, which offers unprecedented single-chip logic performance. ■ All the time-critical stages of production from mask generation to assembly and testing are under one roof at our ASIC facility in Santa Clara, California. This facility features extensive computer-integrated manufacturing and cassette-to-cassette wafer loading. Volume production is also available through other Intel world class facilities. ■ Looking back, I think we've accomplished a lot in a relatively short time, but of course, there is more to be done. By adding world class ASIC capabilities to Intel's arsenal, we can expand the use of the Intel architecture as a core for custom products. In that way we will continue to lead in microcomponent innovation.

Richard D. Boucher

Engineers at Intel's ASIC Technology Centers provide high quality technical support to customers designing ASICs at Intel's three design centers in Santa Clara, Boston and Swindon, U.K.

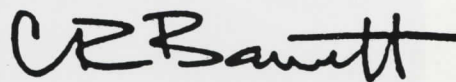
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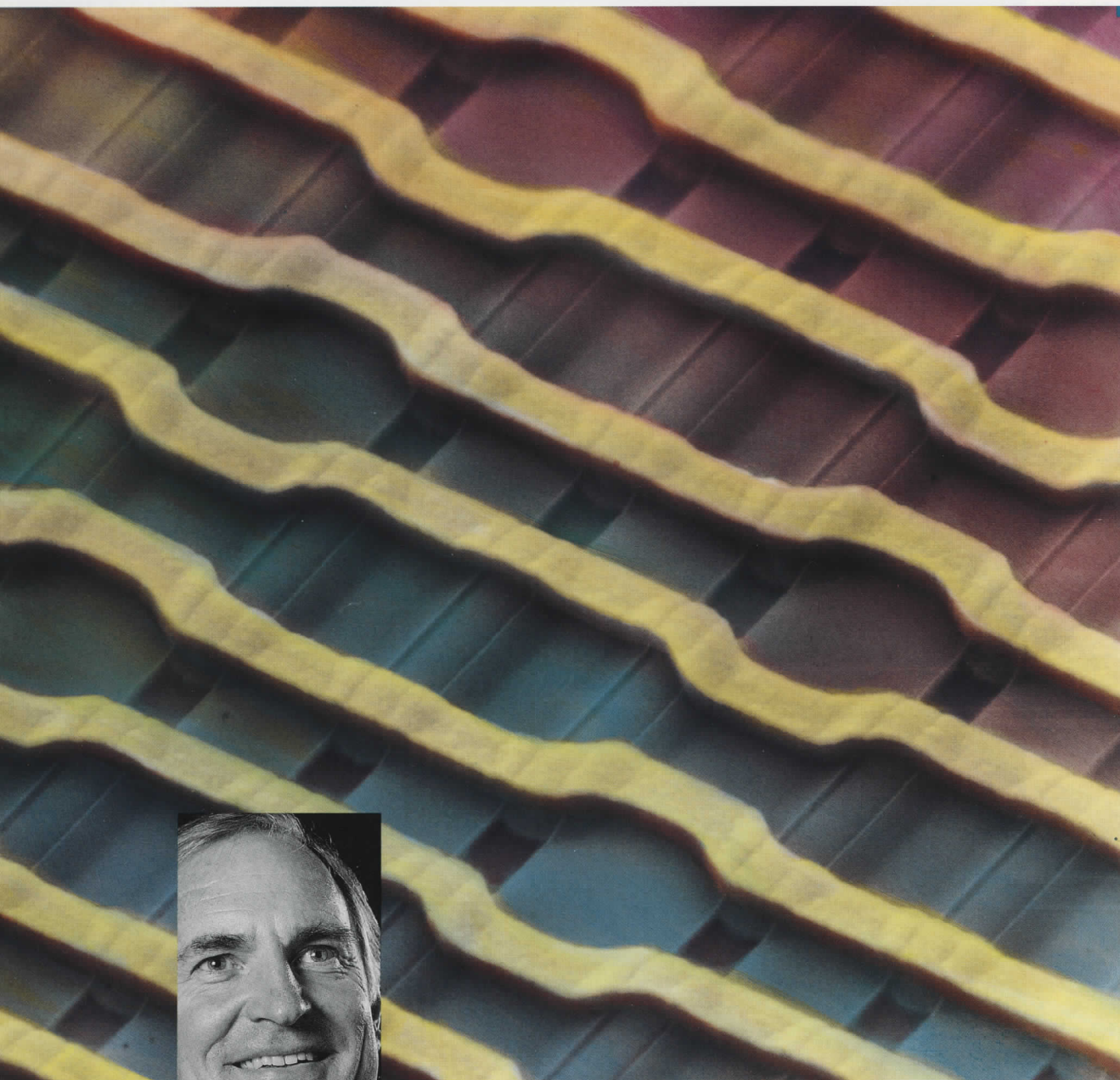


Richard D. Boucher, 60, is one of Intel's most broadly experienced managers and has been with Intel since 1974. He started the company's

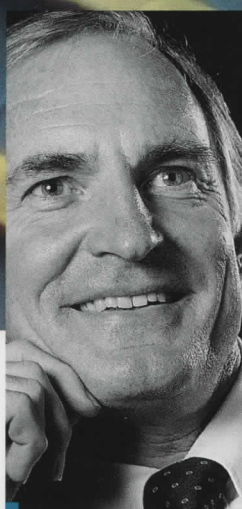
Automotive Operation, headed the Administration Group and currently serves as vice president and general manager of the ASIC Components Group.

For the last several years, Intel has made world class manufacturing a corporate priority. We have worked very hard and spent considerable resources to make our manufacturing capability more efficient and more predictable. ■ In 1987, the recovery of the semiconductor industry and the strength of the market for Intel's new products put our components manufacturing machine to the test. Orders from customers increased dramatically, and the company's ability to satisfy the demand depended on an efficient manufacturing operation. We expanded unit production 28%, and we did it in a predictable manner—something we couldn't do during the 1983–84 upturn. ■ We increased our manufacturing capacity by upgrading our worldwide wafer fabrication facilities in Arizona, California, New Mexico, Oregon and Israel. Within our fabs, we have gained better control of our manufacturing processes and achieved greater equipment utilization and higher yields. For instance, all of our manufacturing facilities now operate on a compressed work week, which keeps our production lines running 24 hours-a-day, at least six days-a-week. ■ The greatest focus was on increasing production of our leading edge products like the 80386 and 80286 microprocessors, 8096 microcontrollers and megabit EPROMs. 80386 output, for example, increased sixfold versus 1986, despite discovery of a testing problem that caused a brief, but significant, yield drop in the second quarter. Some of our more mature commodity products were produced by manufacturing contractors. This allowed Intel to minimize its capacity investment while continuing to market a broad product line. ■ During 1987, our manufacturing machine continued to become more efficient. Equipment utilization has risen 50% over the last three years, and units per component manufacturing worker have climbed 90% during the same period. Production yields have increased and the average cost of a manufacturing activity has dropped 32% from three years ago. Perhaps the most telling statistic of manufacturing's contribution to Intel is our revenue-per-manufacturing employee figure, which has increased from \$100,000 in 1984 to more than \$150,000 today. ■ All of this was accomplished while at the same time improving the quality and reliability of our products. Through the application of sophisticated process control techniques we have better control over our manufacturing processes, and our total defects-per-million are down to approximately 200. This low defect range has enabled an increasing number of our customers to eliminate testing of our products because the quality is so high. ■ 1987 also saw progress in silicon process technology. We have made a rapid conversion to CHMOS, a process that produces high performance chips with lower power requirements. By the end of the year, 37% of our manufacturing activities were done in CHMOS. We are also currently doing the bulk of our production on 1.5 micron technologies, allowing us to pack a larger number of components on a chip of silicon, and therefore achieve more performance. ■ Two new facilities announced in 1987 will further increase our capacity. Construction nears completion on the first of four clean room modules at our 600,000 square-foot facility in Rio Rancho, New Mexico. ■ Construction also began on a Technology Development fab in Santa Clara, California, a 200,000 square-foot research fabrication plant for advanced process and qualification, with 35,000 square feet of Class 1 clean room. Within the clean room the number of airborne particles will be kept to one per cubic foot, over 1,000 times more sterile than an operating room. ■ With 1987's accomplishments behind us, can we now call ourselves a world class manufacturer? The demands on our manufacturing operations in this internationally competitive business are continually increasing. The key to being a world class manufacturer is never being satisfied. By nature, the manufacturing engine is one that needs to be constantly tuned. 1987's model was Intel's best one to date. The 1988 model will be even better.



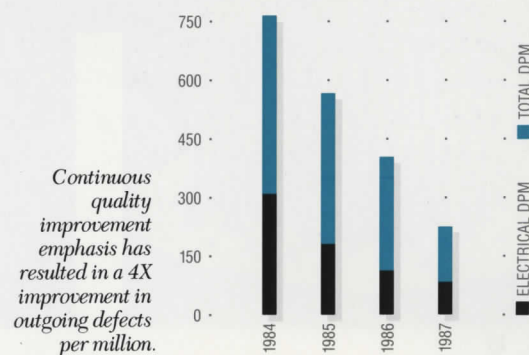



Cost-efficiency is increased by utilizing a one-micron manufacturing process allowing more transistors to be packed onto a smaller chip. This scanning electron microscope photograph of a floating memory cell has been magnified over 18,000 times to show its one micron line widths. (A human hair is 75 microns wide.)



Dr. Craig R. Barrett, 48, was Associate Professor of Materials Science at Stanford University before joining Intel in 1974. He is currently senior vice president and general manager, Components Technology and Manufacturing Group.

COMPONENT DEFECTS-PER-MILLION (DPM)



One of Intel's key objectives in 1987 was to expand capacity for proprietary products. Fab 9 in Rio Rancho, New Mexico is being readied to go into production in mid-1988. The state-of-the-art fab will contain a Class 1 clean room for production of the 80386 and other advanced CHMOS chips.



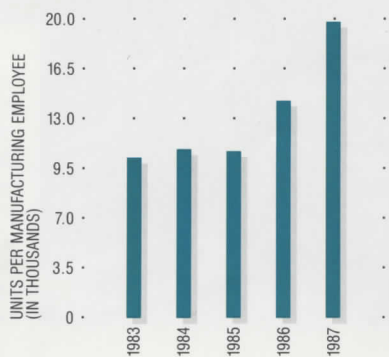


Albert Lau, left, Santa Clara Microcomputer Division, and B.I. Saw of Intel's Penang, Malaysia component test facility, train on the newest chip testing systems. Intel product quality is so high that more and more customers now eliminate incoming testing.

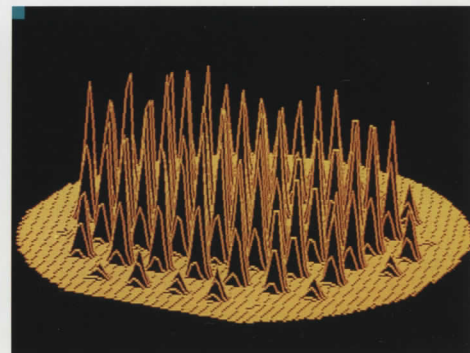
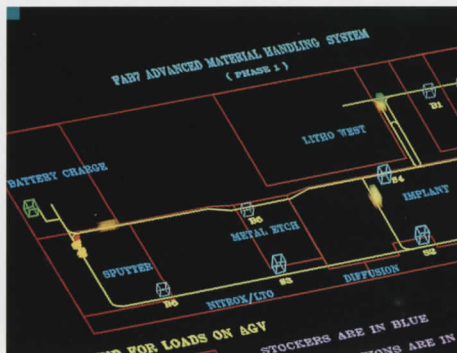
Intel's Advanced Manufacturing Systems group uses 3D modeling to illustrate proposed improvements to the manufacturing process. Through the use of mathematical modeling and animation software, manufacturing systems analysts study such improvements prior to the implementation of new systems.

Intel product engineers use a technique called wafer mapping to ensure uniform yield across wafers. The spikes on the screen indicate relative yield for each die location; the higher the spike, the higher the yield. Engineers are looking for radical differences between die locations. Once found, process engineers work to resolve the problem.

INCREASE IN MANUFACTURING PRODUCTIVITY



Improved yields and designing for manufacturability have contributed to a dramatic rise in overall manufacturing productivity.



1987 was a particularly challenging year for Intel's Sales and Marketing Group. Demand expanded dramatically and some products were in short supply. We focused on working closely with customers to provide excellent service and predictable delivery. The objective was to establish an atmosphere of mutual trust; our customers had to trust we would meet our commitments, and we had to count on them for realistic, short-term assessments of their needs for scarce products. We're pleased to say that at the end of the year 67% of our major customers rated us "excellent" as a vendor. ■ 1987 was a year in which our business continued to become increasingly international. Exports totaled 39% of our sales

for 1987. This meant we had to provide a more widely distributed infrastructure of sales and marketing support for our customers. The Asia-Pacific region, for example, is a particularly fast-growing area; in 1987, we increased the size of our field force in that region. ■ A key to the effectiveness of Intel's sales channel is our highly trained field engineering force. About 95% of them have technical degrees and they receive extensive additional training to keep them knowledgeable on an increasingly complex product line that ranges from supermicrocomputer chip sets to microcomputer platforms for the real-time computing market. ■ The sales cycle begins early in the product development stage when our Field Application Engineers work closely with customers and Intel marketing groups to define future Intel products and ensure they will meet customer specifications. Providing support through our customers' design phase is a critical process and is aided by Intel's outstanding technical documentation. ■ This teamwork among marketing, engineering and the field also pays off in securing design wins from our customers. This year we had over 4,400 design wins for Intel architectures

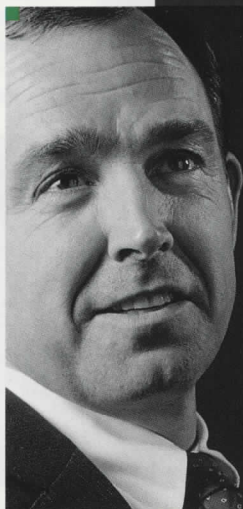
for the reprogrammable microcomputer, embedded controller and real-time computing market segments. ■ But that's only the beginning. Our customer support organization carries on the process by offering customer training, and product and software maintenance. ■ Providing top-notch technical support throughout the product cycle has been a successful strategy for us. By perfecting our performance in delivering quality products within our customers' delivery window, Intel has improved its reputation as a vendor. During 1987, for example, we received awards from NEC, AT&T, Chrysler, Northern Telecom and several others. ■ The days when the world would beat a path to any supplier's door simply on the basis of the newest technological marvel are long gone. That's why service to our customers and achieving notable vendor performance were an absolute priority for the sales and marketing group. We're proud of our achievements in an increasingly competitive international market. We're confident of continued success in 1988.

Frank Gill

Responsible for Intel sales worldwide, Vice President Frank C. Gill, 44, began his Intel career in 1975. Mr. Gill was named a vice president in 1987.



Vice President and Marketing Director Ronald J. Whittier, 51, has also directed Technology Development and the Memory Products Division in his 17 years at Intel. He holds a doctorate in Chemical Engineering from Stanford.

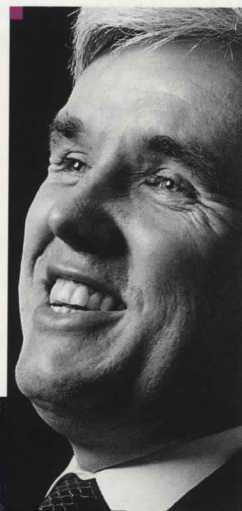


Intel's Field Application Engineers (FAEs) are the industry's largest and best-trained technical support organization. FAEs provide hands-on customer evaluation of Intel products in our 102 demonstration centers worldwide.

Within Intel, the charter of the Administration Group is quite diverse. We operate on a partnership basis with all of the other groups shown in this report. Our job is to raise the money, hire the staff, build the buildings, run the computer and communications systems and provide the other administrative support a growing, successful company needs. ■ In 1987, the corporation solidified its position as a leader in technology and improved its performance as both a vendor and a manufacturer. The Administration Group made significant contributions in each of these areas as Intel returned to profitability. ■ Intel's leading-edge technology has always been the company's lifeblood. Over the years, Intel has invested a great deal of effort and money in the development of its architecture, and that investment must be protected vigorously if Intel is to thrive. In 1987, our Legal Department continued to aggressively obtain compensation for our intellectual property rights by licensing or by formal action. At year-end, major cases were pending against several companies charged with violating Intel patents. ■ Expanding Intel's market segments in the fast-growing Asia-Pacific region was high on the company's list of 1987 priorities. The Administration Group responded by establishing headquarters for Asia-Pacific in Hong Kong, and by putting in place the people, systems and facilities needed to serve a developing market area. ■ This year the Administration Group also made a significant contribution to Intel's drive to become a world class manufacturer. By the end of the year, our Facilities Operation had over 1 million square feet of new manufacturing space completed or under construction. Facilities also upgraded existing Intel plants in Arizona, California, New Mexico, Oregon and Israel. Finally, the Human Resources Department hired and trained the employees needed to complement the new facilities and equipment. Our efforts in these areas have helped Intel increase its manufacturing capacity in the face of rising demand. ■ In good times and bad, our Treasury Department has been effective in providing the financial resources for strategic projects like those mentioned above. Last year, we strengthened our balance sheet through two timely warrant offerings and by repurchasing Intel stock from IBM. Our sound financial performance in 1987 helped build the resources that will keep Intel's destiny in its own hands. ■ A major challenge this year was controlling growth during the economic upturn. Finance worked with the various operating groups to keep headcount growth orderly and realistic despite the growing demands in our business. As a result, annual revenue-per-employee exceeded \$100,000 during 1987—an all-time high—and up from a peak of approximately \$70,000 per employee during the last upturn in 1984. ■ Like our achievements in 1987, the challenges that await the Administration Group in 1988 come from almost every facet of Intel's business. Now that we've returned to profitability, we must remain profitable. We can do that by running the company as efficiently during these good times as we did during the bad times.

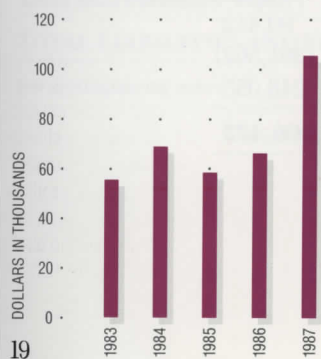
Bob Reed

Robert W. Reed, 41, has been with Intel since 1974. He is vice president of the Administration Group and chief financial officer. He is a graduate of Middlebury College.



The efficient use of capital investment and resources has led to a rise in employee productivity throughout the corporation.

REVENUE PER EMPLOYEE



Fab 9, now close to completion in Rio Rancho, New Mexico, is an excellent example of the Administration Group's diversity. Various elements of the Group financed the plant, built it, staffed it, purchased the equipment, and provided security, communications and legal support.

Consolidated Statements of Income

INTEL CORPORATION

Three Years Ended December 26, 1987

(Thousands—except per share amounts)

	1987	1986	1985
NET REVENUES	\$1,907,105	\$1,265,011	\$1,364,982
Cost of sales	1,043,504	860,680	943,435
Research and development	259,794	228,250	195,171
Marketing, general and administrative	357,871	311,340	286,545
Restructuring of operations	—	60,000	—
Operating costs and expenses	1,661,169	1,460,270	1,425,151
Operating income (loss)	245,936	(195,259)	(60,169)
Interest and other	41,950	20,625	54,721
Income (loss) before taxes and extraordinary items	287,886	(174,634)	(5,448)
Provision (benefit) for taxes	112,343	8,650	(7,018)
Income (loss) before extraordinary items	175,543	(183,284)	1,570
Gain on debt repayment	—	10,119	—
Utilization of net operating loss carryforwards	72,512	—	—
NET INCOME (LOSS)	\$ 248,055	\$ (173,165)	\$ 1,570
Earnings (loss) per capital and capital equivalent share			
Income (loss) before extraordinary items	\$.98	\$ (1.05)	\$.01
Extraordinary items	.40	.06	—
Net income (loss) per share	\$ 1.38	\$ (.99)	\$.01
Capital shares and equivalents	180,358	175,538	176,775

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Three Years Ended December 26, 1987

(Thousands)

	Capital Stock		Retained Earnings	Total
	Number of shares	Amount		
Balance at December 31, 1984	170,748	\$683,577	\$676,586	\$1,360,163
Proceeds from sales of shares through employee stock plans, tax benefit of \$1,448 and other	3,369	32,612	—	32,612
Proceeds from issuance of warrants, net	—	27,136	—	27,136
Net Income	—	—	1,570	1,570
Balance at December 28, 1985	174,117	743,325	678,156	1,421,481
Proceeds from sales of shares through employee stock plans	2,542	26,911	—	26,911
Net (Loss)	—	—	(173,165)	(173,165)
Balance at December 27, 1986	176,659	770,236	504,991	1,275,227
Proceeds from sales of shares through employee stock plans, tax benefit of \$545 and other	5,023	54,293	—	54,293
Proceeds from issuance of warrants, net	—	90,412	—	90,412
Repurchase and retirement of capital stock	(13,350)	(178,000)	(183,562)	(361,562)
Net Income	—	—	248,055	248,055
Balance at December 26, 1987	168,332	\$736,941	\$569,484	\$1,306,425

See accompanying notes.

Consolidated Balance Sheets

December 26, 1987 and December 27, 1986

(Thousands)

INTEL CORPORATION

	1987	1986
ASSETS		
Current assets:		
Cash and temporary cash investments	\$ 89,012	\$ 74,528
Short-term investments (at cost, which approximates market)	529,732	298,696
Accounts receivable, net of allowance for doubtful accounts of \$5,833 (\$4,498 in 1986)	438,890	298,378
Inventories	235,527	197,931
Prepaid taxes on income	101,509	105,298
Other current assets	36,143	48,826
Total current assets	1,430,813	1,023,657
Property, plant and equipment:		
Land and buildings	569,795	529,964
Machinery and equipment	870,689	748,020
Construction in progress	95,695	86,081
	1,536,179	1,364,065
LESS Accumulated depreciation	644,983	584,744
Property, plant and equipment, net	891,196	779,321
Long-term investments (at cost, which approximates market)	203,760	209,195
Investment in unconsolidated subsidiary	58,391	54,604
Other non-current assets	13,003	13,289
TOTAL ASSETS	\$2,597,163	\$2,080,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 192,387	\$ 112,055
Commercial paper	149,558	—
Long-term debt redeemable in 1988	110,000	—
Accounts payable	115,450	61,987
Deferred income on shipments to distributors	83,244	67,367
Accrued compensation and benefits	106,120	45,849
Other accrued liabilities	99,646	72,210
Income taxes payable	25,306	14,814
Total current liabilities	881,711	374,282
Long-term debt	298,062	286,600
Deferred taxes on income	105,395	132,441
Unamortized investment tax credits	5,570	11,516
Commitments and contingencies		
Shareholders' equity:		
Capital stock, no par value, 300,000 shares authorized, 168,332 issued and outstanding in 1987 (176,659 in 1986)	736,941	770,236
Retained earnings	569,484	504,991
Total shareholders' equity	1,306,425	1,275,227
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,597,163	\$2,080,066

See accompanying notes.

Consolidated Statements of Changes in Financial Position

INTEL CORPORATION

Three Years Ended December 26, 1987

(Thousands)

	1987	1986	1985
Working capital provided by (used for) operations:			
Income (loss) before extraordinary items	\$ 175,543	\$ (183,284)	\$ 1,570
Items not involving the current use of working capital:			
Gain on sale of buildings	(18,100)	—	—
Depreciation	171,359	173,503	154,122
Net loss on retirements of property, plant and equipment	10,975	50,249	12,130
Amortization of debt discount	10,954	9,760	5,459
Non-current portion of deferred taxes on income and unamortized investment tax credits	(32,992)	(8,905)	20,312
Total working capital provided by operations before extraordinary items	317,739	41,323	193,593
Working capital provided by:			
Extraordinary item—utilization of net operating loss carryforwards	72,512	—	—
Extraordinary item—gain on debt repayment	—	10,119	—
Proceeds from sale of buildings, net	25,421	—	—
Sale of long-term investments	38,834	37,200	206,471
Other assets, net	286	(978)	8,741
Additions to long-term debt, net	116,685	65,710	126,633
Proceeds from sales of shares through employee stock plans (and in 1987 and 1985, tax benefits thereof and other)	54,293	26,911	32,612
Proceeds from issuance of warrants, net of issuance costs	90,412	—	27,136
Total working capital provided	716,182	180,285	595,186
Working capital used for:			
Additions to property, plant and equipment	301,530	154,827	236,216
Long-term investments, net	33,399	30,055	151,064
Investment in unconsolidated subsidiary	3,787	3,546	51,058
Reclassification of redeemable long-term debt	110,000	—	—
Retirement of long-term debt	6,177	59,701	7,567
Repurchase and retirement of capital stock	361,562	—	—
Total working capital used	816,455	248,129	445,905
Increase (decrease) in working capital	\$(100,273)	\$ (67,844)	\$149,281
Increase (decrease) in working capital by component:			
Cash and temporary cash investments	\$ 14,484	\$ (113,383)	\$ 98,499
Short-term investments	231,036	125,463	31,993
Accounts receivable	140,512	(6,724)	(49,033)
Inventories	37,596	27,173	(48,556)
Prepaid taxes on income	(3,789)	16,449	(9,669)
Other current assets	(12,683)	(49,231)	42,358
Short-term debt	(80,332)	(23,157)	(23,365)
Commercial paper	(149,558)	—	—
Long-term debt redeemable in 1988	(110,000)	—	—
Accounts payable	(53,463)	(4,999)	22,912
Deferred income on shipments to distributors	(15,877)	5,054	15,992
Accrued compensation and benefits	(60,271)	(7,513)	29,981
Other accrued liabilities	(27,436)	(25,055)	1,351
Income taxes payable	(10,492)	(11,921)	36,818
Increase (decrease) in working capital	(100,273)	(67,844)	149,281
Working capital at beginning of year	649,375	717,219	567,938
Working capital at end of year	\$ 549,102	\$ 649,375	\$717,219

(Certain 1986 and 1985 amounts have been reclassified to conform to the 1987 presentation.)

See accompanying notes.

December 26, 1987, December 27, 1986 and December 28, 1985

ACCOUNTING POLICIES

Fiscal Year In 1985 the Company changed its accounting period from a fiscal year ended December 31 to a fiscal year ended the last Saturday in December. This change had no material effect on the Company's 1985 financial statements. Fiscal year 1987, a 52 week year, ended on December 26, 1987. The first 53 week year will end on December 31, 1988.

Basis of Presentation The consolidated financial statements include the accounts of Intel Corporation and all of its wholly-owned subsidiaries, except for its banking subsidiary, the investment in which is accounted for under the equity method. Because of the nature of its operations, the assets and liabilities of this offshore subsidiary are not consolidated. Accounts denominated in foreign currencies have been translated in accordance with FASB Statement No. 52, using the U.S. dollar as the functional currency.

Inventories Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual cost on an average or first-in, first-out basis). Market is based upon estimated realizable value reduced by normal gross margin. Inventories at fiscal year-ends are as follows:

(Thousands)	1987	1986
Materials and purchased parts	\$ 48,233	\$ 40,368
Work in process	91,163	78,413
Finished goods	96,131	79,150
Total	\$235,527	\$197,931

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the estimated useful lives of the assets. Accelerated methods of computing depreciation are used for tax purposes.

Deferred Income on Shipments to Distributors

Certain of Intel's sales are made to distributors under agreements allowing price protection and right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Investment Tax Credits Investment tax credits are accounted for using the deferral method whereby credits are treated as a reduction of the U.S. federal tax provision ratably over the useful lives of the related assets.

Computer Software The Company adopted FASB Statement No. 86 effective December 29, 1985. The impact on the 1986 and 1987 financial statements is immaterial.

Earnings (Loss) Per Share Earnings (loss) per share is computed using the weighted average number of outstanding capital shares and dilutive capital equivalent shares outstanding.

CAPITAL STOCK

Effective September 28, 1987, Intel declared a three-for-two stock split and increased its authorized shares from 200,000,000 to 300,000,000. Shares and per share amounts reported herein have been restated to reflect the effect of this stock split.

On May 20, 1985 the Company issued \$236.5 million aggregate principal amount of zero coupon notes (see Borrowings) with detachable warrants. The warrants entitle the holders to purchase 8,868,000 shares of Capital Stock reserved for issuance at an exercise price of \$26.67 per share through May 15, 1995. These warrants are subject to acceleration by the Company upon the occurrence of certain events. \$27.1 million, representing the original value of the warrants, net of related expenses, is included in Capital Stock.

On April 1, 1987 the Company issued warrants that entitle the holders to purchase 5,250,000 shares of Capital Stock reserved for issuance at an exercise price of \$30 per share through March 15, 1992. These warrants are subject to acceleration by the Company on or after March 15, 1989 upon the occurrence of certain events. \$33.2 million, representing the proceeds of the offering, net of expenses, is included in Capital Stock. Concurrent with the warrant offering, the Company issued \$110 million aggregate principal amount of 8½% notes due March 15, 1997. (See Borrowings.)

On June 17, 1987 the Company repurchased and retired 13,350,000 shares of Capital Stock from International Business Machines Corporation (IBM) for \$361,562,000 in cash. (See Related Party Transactions.) This transaction resulted in a \$178,000,000 reduction in Capital Stock and a \$183,562,000 reduction in retained earnings.

On August 14, 1987 the Company issued warrants that entitle the holders to purchase 9,000,000 shares of Capital Stock reserved for issuance at an exercise price of \$30 per share through August 15, 1988. \$57.2 million, representing the proceeds of the offering, net of expenses, is included in Capital Stock.

RESTRUCTURING OF OPERATIONS

During 1986 the Company recorded a \$60 million charge to operations for restructuring. The charge was made in the third quarter and is related to the Company's decisions to close its Barbados assembly plant, phase out its Puerto Rico test plant, reduce the workforce at its other Puerto Rico facilities and sell its bubble memory business (Magnetics). The charge covers the diminished value of assets, employee termination charges and other support costs related to these actions.

BORROWINGS

Short-term debt Short-term debt at December 26, 1987 consists of \$16.2 million of notes payable, \$135.2 million borrowed under foreign and domestic lines of credit, \$7.3 million of current portion of long-term debt and \$33.7 million borrowed under other arrangements. At December 26, 1987 the Company and its subsidiaries had established foreign and domestic lines of credit of approximately \$560 million. These lines are generally renegotiated on an annual basis. The Company complies with compensating balance requirements related to certain of these lines of credit; however, such requirements are immaterial and do not legally restrict the use of cash. The weighted average interest rate on notes payable and borrowings under lines of credit outstanding at December 26, 1987 approximated 5.9%.

Commercial paper In 1986 the Company began borrowing under commercial paper programs under which aggregate outstanding maturities reached \$500 million in 1987 and \$300 million in 1986. This debt is rated A1 by Standard and Poor's and P1 by Moody's Investor Service. The proceeds are used to fund short-term working capital needs of the Company. At December 26, 1987 there were \$149.6 million of commercial paper obligations outstanding. The weighted average interest rate on these outstanding obligations approximated 8.0% at December 26, 1987. There were no commercial paper obligations outstanding at December 27, 1986.

Long-term debt Long-term debt at fiscal year-ends is as follows:

(Thousands)	1987	1986
Payable in U.S. dollars:		
1983 Series A Industrial, Medical and Environmental Pollution Control Revenue Bonds	\$ 80,000	\$ 80,000
1983 Series B Industrial, Medical and Environmental Pollution Control Revenue Bonds	30,000	30,000
Zero Coupon Notes, net of unamortized discount of \$134,706 (\$145,660 in 1986)	101,794	90,840
8½% Notes	109,623	—
Other U.S. dollar debt	4,500	4,500
Payable in other currencies:		
Yen Guaranteed Bonds	35,161	32,279
Yen Promissory Notes	20,706	16,270
Yen Japanese Government Bonds	25,246	20,211
Other foreign currency debt	8,328	12,580
(Less redeemable long-term debt)	(110,000)	—
(Less current portion of long-term debt)	(7,296)	(80)
Total long-term debt	\$ 298,062	\$286,600

Proceeds of \$80 million from the Adjustable Rate Industrial Revenue Bonds issued in September, 1983 (the 1983 Series A Bonds) and \$30 million issued in December, 1983 (the 1983 Series B Bonds) by the Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority (the Authority) have been loaned to the Company. In accordance with loan agreements between the Company and the Authority, the Company has guaranteed repayment of principal and interest on these Bonds, which are subject to redemption prior to maturity upon the occurrence of certain events. The 1983 Series A Bonds are due September 1, 2013, bear interest at 8% through August 1988 and are adjustable and redeemable (at the option of either the Company or the bondholder) every five years beginning in September 1988 through September 2008 in accordance with certain formulas. The 1983 Series B Bonds are due December 1, 2013, bear interest at 7.95% through November 1988 and are adjustable and redeemable (at the option of either the Company or the bondholder) every five years beginning December 1988 through December 2008 in accordance with certain formulas. As a result of the September and December 1988 redemption options, this debt has been included with current liabilities at December 26, 1987. If this debt is renewed for the next five year period at renegotiated interest rates, as expected, it will be classified as long-term debt at December 31, 1988.

In connection with these agreements, the Company is obligated to spend a total of \$110 million to finance expansion in Puerto Rico. As of December 26, 1987, the Company had spent \$87 million. The remainder of the Company's commitment is restricted, invested in short-term and long-term interest-bearing instruments and included in long-term investments. (See Investments.)

On May 20, 1985 the Company issued \$236.5 million aggregate principal amount of zero coupon notes with detachable warrants. (See Capital Stock.) The notes are due May 15, 1995 and have an effective yield to maturity of 11.75%, compounded semiannually, with interest paid at maturity. As of December 26, 1987, \$101.8 million of notes were outstanding, net of unamortized discount.

On April 1, 1987 the Company completed a public offering of \$110 million aggregate principal amount of 8½% notes and an offering of warrants to purchase 5.3 million shares of capital stock. (See Capital Stock.) The notes are due March 15, 1997 and are redeemable on or after March 15, 1994 at the option of the Company. All of the notes are outstanding at December 26, 1987.

On January 29, 1985 the Company issued Yen 12.5 billion 6½% Yen Guaranteed Bonds due January 29, 1992. As of December 26, 1987 Yen 4.55 billion (approximate U.S. dollar equivalent of \$35 million) were outstanding and the proceeds were invested in short-term and long-term interest-bearing instruments. The loan has been hedged for currency fluctuations, resulting in an effective dollar interest rate of 11.38%.

On June 27, 1986 the Company borrowed Yen 2.7 billion (approximate U.S. dollar equivalent of \$21 million at December 26, 1987) under promissory note agreements maturing February 10, 1992. Proceeds of the borrowings were used to repurchase a portion of the 6% Yen Guaranteed Bonds described above. The notes have been hedged for currency fluctuations, resulting in an effective dollar interest rate of 10.25%.

On July 21, 1986 the Company borrowed Yen 3 billion 7.7% Japanese Government Bonds (approximate face value U.S. dollar equivalent of \$23 million at December 26, 1987) maturing February 20, 1992 under a securities borrowing arrangement. In connection with this transaction, the Company sold these bonds at a premium and invested the proceeds from the sale in short-term and long-term Yen denominated interest-bearing instruments. The premium will be amortized over the term of the borrowing, resulting in an effective Yen interest rate of 5.7%. Under this arrangement the Company is obligated to return the Bonds or their equivalent Yen denominated face value at maturity.

Approximately \$39 million of short-term and long-term debt owed to an agency of a foreign government as of December 28, 1985 was repaid in 1986 as a result of an agreement between Intel and the foreign government. Under that agreement, the foreign government assumed the full indebtedness of the Company to the agency in consideration for a cash payment from the Company to the foreign government. An extraordinary gain amounting to \$10.1 million was realized in 1986 as a consequence of the debt repayment.

As of December 26, 1987, aggregate long-term debt maturities are as follows: 1988—\$117.3 million; 1989—\$0.8 million; 1990—\$0 million; 1991—\$0 million; 1992—\$81.1 million; and thereafter—\$350.8 million.

INVESTMENTS

Investments consist of time deposits, Eurodollar deposits, U.S. and foreign government obligations, U.S. Government Agencies' obligations, corporate bonds, unrealized gains on long-term currency swaps and investments made under repurchase agreements. Investments denominated in foreign currencies are hedged by currency forward contracts. Investments with maturities of greater than one fiscal year and restricted investments are classified as long-term. Investments are carried at cost which approximates market.

Investments consist primarily of AA or better quality bonds and investments with AA rated or better counterparties for long-term transactions and A1P1 rated counterparties for short-term transactions. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries or the absence of AA rated financial institutions in some countries result in some exceptions. Collateral has been obtained and secured from counterparties against investments whenever deemed necessary. At December 26, 1987, investments were placed with over 50 different financial institutions and no individual security or financial institution exceeded 20% of total investments.

During 1986 and 1987, the Company entered into currency forward contracts, currency options, interest rate swaps, currency interest rate swaps and Eurodollar futures contracts to hedge certain investment and currency exposure against fluctuations in interest rates and currency exchange rates. At December 26, 1987, the outstanding net face amounts of these contracts totalled approximately \$362 million of currency forward contracts (including \$270 million which hedge foreign currency investments), \$16 million of currency options, \$295 million of interest rate swaps, \$42 million of currency interest rate swaps and 840 three-month Eurodollar interest rate futures contracts, without giving effect to maturity of these instruments.

During 1986 and 1987, the Company entered into equity investments hedged with corresponding market index futures contracts as well as investments in precious metals hedged by forward contracts not exceeding \$350 million outstanding in total at any point in time. At December 26, 1987 there were no outstanding equity investments or precious metals investments.

INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

During 1985 the Company formed a wholly-owned offshore banking subsidiary which is accounted for under the equity method. Assets of this subsidiary of \$62 million as of December 26, 1987 (\$57 million as of December 27, 1986) consist primarily of loans to third-party financial institutions. Earnings of the subsidiary in 1987 were \$3.8 million (\$3.5 million and \$0 million in 1986 and 1985, respectively).

INTEREST AND OTHER

(Thousands)	1987	1986	1985
Interest income	\$ 61,417	\$ 41,566	\$ 53,345
Interest expense	(62,963)	(36,325)	(19,408)
Foreign currency gains	4,987	3,007	5,449
Other income	20,409	12,377	15,335
Gain on sale of buildings	18,100	—	—
Total	\$ 41,950	\$ 20,625	\$ 54,721

Interest expense for 1987, 1986, and 1985 excludes \$2,832,000, \$2,429,000 and \$6,273,000, respectively, which was capitalized as a component of construction costs. Other income for 1987 and 1986 includes income, net from equity investments hedged with market index futures contracts, income from hedged precious metal investments, equity income from its banking subsidiary and income from other investments. Other income for 1987 also includes a gain from the liquidation of a hedging investment. Other income in 1985 includes gains from the sale of long-term marketable securities and income from other investments. The Company records net interest income or net interest expense related to contractual agreements to hedge certain investment positions (see Investments) on a monthly basis.

PROVISION (BENEFIT) FOR TAXES

Income (loss) before taxes and extraordinary items and the provision (benefit) for taxes consist of the following:

(Thousands)	1987	1986	1985
Income (loss) before taxes and extraordinary items:			
U.S.	\$142,012	\$(222,713)	\$(56,949)
Foreign	145,874	48,079	51,501
Total income (loss) before taxes and extraordinary items	\$287,886	\$(174,634)	\$ (5,448)
Provision (benefit) for taxes:			
Federal:			
Current	\$ 97,473	\$ 20,814	\$(62,639)
Deferred (prepaid)	(30,164)	(28,673)	31,650
	67,309	(7,859)	(30,989)
State:			
Current	12,901	—	—
Deferred (prepaid)	2,000	—	—
	14,901	—	—
Foreign:			
Current	31,172	13,190	25,640
Deferred (prepaid)	(1,039)	3,319	(1,669)
	30,133	16,509	23,971
Total provision (benefit) for taxes on income	\$112,343	\$ 8,650	\$ (7,018)
Effective tax rate	39%	—	—

The provision (benefit) for taxes reconciles to the amount computed by applying the statutory Federal rate to income (loss) before taxes and extraordinary items as follows:

(Thousands)	1987	1986	1985
Computed expected tax	\$115,154	\$(80,332)	\$ (2,506)
U.S. operating loss carryforward	—	86,454	—
State taxes, net of Federal benefits	8,941	—	—
Amortization of investment tax credits	(1,825)	(6,700)	(9,470)
Research and experimental credit	(4,100)	(2,902)	(7,900)
Provision for combined foreign and U.S. taxes on certain foreign income at rates in excess of (less than) U.S. rate	(6,173)	7,157	11,181
Other	346	4,973	1,677
Provision (benefit) for taxes	\$112,343	\$ 8,650	\$ (7,018)

In 1986, settlement of certain Internal Revenue Service examination adjustments for the years 1978 through 1982 resulted in an increase in prepaid taxes and a corresponding increase in taxes currently payable. In 1987, payment of additional tax for potential further adjustments in the same audit period resulted in a decrease in deferred taxes and a corresponding increase in taxes currently payable. Deferred (prepaid) income taxes result from differences in the timing of certain revenue and expense items for tax and financial reporting purposes. The sources and tax effects of these differences are as follows:

(Thousands)	1987	1986	1985
Inventory valuation	\$ —	\$ (8,773)	\$(18,662)
Distributor sales and other reserves	—	—	3,695
Unremitted earnings of certain subsidiaries	(26,373)	4,059	24,077
Deferred ITC	(5,946)	(7,390)	(954)
Depreciation	—	(4,547)	13,002
Prepaid medical benefits	—	—	6,939
State and local tax accruals	2,000	—	4,807
Other, net	1,116	(8,703)	(2,923)
Deferred (prepaid) income taxes	\$(29,203)	\$(25,354)	\$ 29,981

For tax reporting purposes at December 26, 1987, the Company has a net operating loss carryforward of approximately \$150 million, which if unused would expire in 2001. The tax net operating loss carryforward is primarily due to timing differences such as changes in inventory and other currently nondeductible reserves, accelerated depreciation, and unremitted earnings of certain subsidiaries.

The 1987 provision for income taxes contains charges in lieu of federal, state and foreign income taxes of approximately \$73 million, representing taxes which would have been provided in the absence of operating loss carryforwards from 1986. Income tax benefits for the year ended December 26, 1987 resulting from utilization for financial reporting purposes of the operating loss carryforwards are presented as an extraordinary credit.

The Company also has foreign tax credit carryforwards of approximately \$22 million (expiring beginning in 1990), and investment and other credit carryforwards of approximately \$9 million (expiring beginning in 1999) which are available to reduce future U.S. tax liabilities.

In addition, the Company has unbenefited foreign loss carryforwards of approximately \$57 million which are available to reduce future taxes under the laws of the various foreign jurisdictions.

The Company's U.S. income tax returns for the years 1978 through 1985 are presently under examination by the Internal Revenue Service. Management believes that adequate amounts of tax have been provided for any additional adjustments which may result.

The tax provision for 1987 was computed in accordance with APB No. 11 and does not reflect the impact of adopting FASB Statement No. 96. When the new Statement is adopted, the Company expects to reduce prior retained earnings by approximately \$28 million related to limitations on recognition of prepaid tax assets.

EMPLOYEE BENEFIT PLANS

Stock Option Plans The Company has stock option plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued capital stock at not less than the fair market value at date of grant.

Options currently expire no later than ten years from date of grant. No material charges have been made to income in accounting for options. Proceeds realized by the Company as a result of transactions in these plans are credited to capital stock. Income tax benefits are credited to capital stock only for those years in which the Company can realize the benefits. Additional information with respect to employee stock options is as follows.

(Thousands)	Shares Available For Options	Outstanding Options	
		Number of Shares	Aggregate Price
December 31, 1984	22,500	17,237	\$ 264,234
Options granted	(10,608)	10,608	174,004
Options exercised	—	(1,931)	(14,743)
Options cancelled	7,908	(7,908)	(175,271)
Options cancelled under expired plans	(80)	—	—
December 28, 1985	19,720	18,006	\$ 248,224
Options granted	(17,541)	17,541	237,882
Options exercised	—	(1,304)	(10,573)
Options cancelled	15,114	(15,114)	(254,203)
Options cancelled under expired plans	(36)	—	—
December 27, 1986	17,257	19,129	\$ 221,330
Options granted	(4,361)	4,361	114,045
Options exercised	—	(3,539)	(35,017)
Options cancelled	1,340	(1,340)	(19,235)
Options cancelled under expired plans	(1)	—	—
December 26, 1987	14,235	18,611	\$ 281,123
Options exercisable at:			
December 28, 1985		5,604	\$ 55,092
December 27, 1986		3,955	\$ 32,360
December 26, 1987		5,178	\$ 53,956

On October 20, 1986, employees holding options to purchase shares of Intel capital stock were offered the opportunity to exchange their existing options for the same number of options at the then current market price. This offer was made because management believed that the higher-priced options were no longer a motivating factor for key employees and officers. As of December 27, 1986, 13,162,000 shares related to the 1986 regrant were exchanged and are reflected in the cancellation and grant activity for 1986. The average exercise price for options outstanding at December 26, 1987 was \$15.11 while the range of individual exercise prices was \$3.33 to \$37.25. Individual options outstanding at that date will expire if not exercised at specific dates ranging from January 1988 to December 1997. The range of exercise prices for options exercised during the three year period ended December 26, 1987 was \$3.33 to \$27.17.

Stock Participation Plan Under this plan, qualified employees are entitled to purchase shares of the Company's capital stock at 85% of the fair market value at certain specified dates. Of the 19,500,000 shares authorized to be issued under this plan, as amended, 6,391,000 shares are available for issuance at December 26, 1987. Employees purchased 1,546,000 shares in 1987 (1,329,000 and 1,516,000 in 1986 and 1985, respectively) for \$20,552,000 (\$17,748,000 and \$23,053,000 in 1986 and 1985, respectively).

Profit Sharing Retirement Plan Effective July 1, 1979, the Company adopted a profit sharing retirement plan for the benefit of qualified employees. The plan is designed to provide employees with an accumulation of funds at retirement and provides for annual contributions to trust funds based on formulas determined by the Board of Directors or its designee. \$24,834,000 was accrued under the profit sharing retirement plan in 1987 (nothing in 1986 or 1985).

Effective January 1, 1987, contributions made by the Company to the plan will generally vest ratably over a three to seven year period based on length of service (certain portions will vest immediately). Prior to 1987, contributions generally vested five years after each plan year or upon retirement (certain portions vested immediately). In 1985 the IRS approved amendments providing for the accelerated vesting of certain previously unvested fund assets for terminated plan participants. It is management's intention to fund contributions on a current basis. Effective January 1, 1988 the Company has adopted a defined benefit pension plan for the benefit of qualified employees.

In addition to the contributions noted above, approximately \$1,725,000 and \$1,643,000 in 1986 and 1985, respectively, was accrued for the Company's Payroll Based Tax Credit Employee Stock Ownership Plan (PASOP) program. Under this program, shares of Company stock were purchased for the benefit of qualified employees based on a percentage of qualified compensation, as defined. Shares credited to employees under this program vest immediately and are subject to withdrawal upon the earlier of termination of employment or 84 months from date of contribution. Effective January 1, 1987 the PASOP program was amended so that no further contributions would be made.

COMMITMENTS

The Company leases a portion of its capital equipment and certain of its facilities under leases which expire at various dates through 2009. Rental expense was \$36,000,000 in 1987, \$34,100,000 in 1986, and \$33,400,000 in 1985. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1988—\$27,900,000; 1989—\$23,100,000; 1990—\$17,800,000; 1991—\$10,200,000; 1992—\$4,600,000; 1993 and beyond—\$5,000,000. Commitments for construction or purchase of property, plant and equipment approximated \$174 million at December 26, 1987. Financial inducements have been provided to the Company to construct and equip certain manufacturing facilities within a foreign country. The financial inducements included a combination of grants and, through 1986, low-interest loans to fund a major portion of this project. Although the loans, secured by the facilities and equipment, were repaid during 1986, the Company has agreed to continue operating its facilities within that country. (See Borrowings.)

CONTINGENCIES

In 1987 the Company was served with a demand for arbitration by Advanced Micro Devices Incorporated (AMD) under which AMD alleged that the Company had breached specific provisions of a technology exchange agreement between the parties and had committed other such acts allegedly injurious to AMD. AMD's demand seeks monetary damages of \$1 billion as direct and consequential damages or, alternatively, \$100 million as direct damages, and other specific relief the arbitrator may deem appropriate. In addition, AMD has asked the arbitrator to order transfer of certain product technology to AMD. The Company has also made certain counter-claims against AMD.

The Company believes that AMD's claims are without merit and is vigorously contesting those claims. The case is currently in arbitration and the ultimate outcome of these matters cannot be determined at this time. Management, including internal counsel, does not believe that the outcome will have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company is a defendant in a lawsuit filed by Hughes Aircraft Corporation (Hughes) in a U.S. Federal Court in 1983. The suit alleges that the Company willfully infringed and continues to infringe three patents relating to ion implantation. One of the patents on which Hughes alleges infringement expired in October 1986 and a second patent expired in April 1987. Hughes' complaint seeks unspecified monetary damages and an injunction against further alleged infringement. This case has not been currently set for trial.

The Company believes it has several meritorious defenses to the lawsuit and is contesting the lawsuit vigorously. The ultimate outcome of this matter cannot be determined at this time. Management, including internal counsel, does not believe that the outcome will have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company has been named to the California and Federal Superfund lists for three of its sites and has signed a consent order with the Federal Environmental Protection Agency (EPA) to perform a Remedial Investigation/Feasibility Study to evaluate the ground water in a certain area related to one of its sites. In addition, the Company has done extensive cleanup and studies of its sites. Although the liability, if any, to the Company arising out of these matters cannot be determined at this time, in the opinion of management, the ultimate resolution will not have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company is party to various other legal proceedings. In the opinion of management, these proceedings will not have a material adverse effect on the financial position or overall trends in results of operations of the Company.

INDUSTRY SEGMENT REPORTING

Intel and its subsidiaries operate in one dominant industry segment. The Company is engaged principally in the design, development, manufacture, and sale of microcomputer components and related products at various levels of integration. In 1987, 1986 and 1985, approximately 14.5%, 5.7% and 19.9%, respectively, of Intel's revenues were derived from sales to one significant customer. (See Related Party Transactions.) Major operations outside the United States include manufacturing facilities in Israel, Malaysia, the Philippines, and Singapore, and sales subsidiaries in Japan, throughout Europe and in other parts of the world. Summary balance sheet information for operations outside of the United States at fiscal year-ends is as follows:

(Thousands)	1987	1986
Total assets	\$729,281	\$558,839
Total liabilities	\$280,432	\$202,634
Net property, plant and equipment	\$184,209	\$156,641

Geographic information for the three years ended December 26, 1987 is presented in the tables below. Transfers between geographic areas are accounted for at amounts which are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Operat-

ing income by geographic segment does not include an allocation of general corporate expenses. Identifiable assets are those assets that can be directly associated with a particular geographic area. Corporate assets include principally cash, short-term investments, prepaid taxes on income, and certain other current assets.

(Thousands)	U.S.	Europe	Other	Eliminations	Corporate	Consolidated
1987						
Sales to unaffiliated customers	\$1,166,943	\$447,856	\$292,306	\$ —	\$ —	\$ 1,907,105
Transfers between geographic areas	537,657	6,532	193,555	(737,744)	—	—
Net revenues	\$1,704,600	\$454,388	\$485,861	\$(737,744)	\$ —	\$ 1,907,105
Operating income (loss)	\$ 269,683	\$ 26,689	\$ 80,184	\$ (19,253)	\$(111,367)	\$ 245,936
Identifiable assets	\$1,502,651	\$225,520	\$503,761	\$(136,068)	\$ 501,299	\$ 2,597,163
1986						
Sales to unaffiliated customers	\$ 760,895	\$338,779	\$165,337	\$ —	\$ —	\$ 1,265,011
Transfers between geographic areas	365,994	5,763	132,101	(503,858)	—	—
Net revenues	\$1,126,889	\$344,542	\$297,438	\$(503,858)	\$ —	\$ 1,265,011
Operating income (loss)	\$ (145,667)	\$ 33,943	\$ (20,364)	\$ 8,596	\$ (71,767)	\$ (195,259)
Identifiable assets	\$1,237,780	\$180,108	\$378,731	\$(103,017)	\$ 386,464	\$ 2,080,066
1985						
Sales to unaffiliated customers	\$ 893,410	\$361,523	\$110,049	\$ —	\$ —	\$ 1,364,982
Transfers between geographic areas	315,586	—	113,134	(428,720)	—	—
Net revenues	\$1,208,996	\$361,523	\$223,183	\$(428,720)	\$ —	\$ 1,364,982
Operating income (loss)	\$ (19,334)	\$ 43,681	\$ 202	\$ 14,673	\$ (99,391)	\$ (60,169)
Identifiable assets	\$1,315,396	\$159,554	\$337,226	\$(120,139)	\$ 459,828	\$ 2,151,865

Certain 1986 amounts have been reclassified to conform to the 1987 presentation.

RELATED PARTY TRANSACTIONS

In February, 1983 International Business Machines Corporation (IBM) became a related party due to its purchase of Intel stock. During 1987 the Company retired 13,350,000 shares of Capital Stock repurchased from IBM for \$362 million in cash. (See Capital Stock.) IBM disposed of its remaining investment in Capital Stock of the Company in 1987 so that as of December 26, 1987 IBM had no Capital Stock investment in the Company and ceased to be a related party. As of December 27, 1986 and December 28, 1985, IBM owned less than 20% of the Company's outstanding Capital Stock. In 1987 approximately 14.5% of Intel's revenues were derived from sales to IBM (5.7% and 19.9% in 1986 and 1985, respectively).

SUPPLEMENTAL INFORMATION (unaudited)

Quarterly Information Quarterly information for each of the two years in the period ended December 26, 1987 is presented on page 32.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Intel Corporation

We have examined the accompanying consolidated balance sheets of Intel Corporation at December 26, 1987 and December 27, 1986, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 26, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 26, 1987 and December 27, 1986, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 26, 1987, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company
San Jose, California
January 12, 1988

Financial Summary

INTEL CORPORATION

(Thousands-except per share amounts)

Ten Years Ended December 26, 1987

	Net Investment In Plant & Equip.	Total Assets	Long Term Debt	Share- holders' Equity	Working Capital Provided By:		Working Capital Used for Additions To Plant & Equip.
					Operations	Employee Stock Plans	
1987	\$891,196	\$2,597,163	\$298,062	\$1,306,425	\$317,739	\$54,293	\$301,530
1986	779,321	2,080,066	286,600	1,275,227	41,323	26,911	154,827
1985	848,246	2,151,865	270,831	1,421,481	193,593	32,612	236,216
1984	778,282	2,029,399	146,306	1,360,163	339,720	37,236	388,445
1983	503,592	1,679,650	127,586	1,121,740	239,183	56,780	144,974
1982	461,625	1,056,452	197,143	551,853	135,570	33,990	138,085
1981	411,747	871,517	150,000	487,817	118,283	27,598	157,426
1980	320,559	767,168	150,000	432,860	157,606	32,930	156,006
1979	217,391	500,093	—	303,189	124,961	19,869	96,681
1978	160,140	356,565	—	205,062	78,025	12,025	104,157

	Net Revenues	Cost Of Sales	Research & Development	Operating Income (Loss)	Net Income (Loss)	
					Total	Per Share
1987	\$1,907,105	\$1,043,504	\$259,794	\$245,936	\$248,055	\$1.38
1986	1,265,011	860,680	228,250	(195,259)	(173,165)	(.99)
1985	1,364,982	943,435	195,171	(60,169)	1,570	.01
1984	1,629,332	882,738	180,168	250,450	198,189	1.13
1983	1,121,943	624,296	142,295	138,717	116,111	.70
1982	899,812	541,928	130,801	28,443	30,046	.22
1981	788,676	458,308	116,496	29,579	27,359	.20
1980	854,561	399,438	96,426	183,120	96,741	.74
1979	660,984	313,106	66,735	149,169	77,804	.62
1978	399,390	196,376	41,360	85,043	44,314	.36

OVERVIEW

1987 was an outstanding year for Intel. Revenues and net income reached record levels. The semiconductor industry was recovering in 1987 from the slump which began in late 1984. This slump significantly impacted the Company's 1985 results and had an even more dramatic impact on 1986 as continued industry overcapacity resulted in pressure on selling prices and a decline in revenue from the previous year. 1987's results are in sharp contrast to 1985 and 1986. The Company has recovered in 1987 due to increased demand for its proprietary products and actions taken in prior years to streamline its operations. In 1986, the Company reported a record loss due to weakness in the semiconductor marketplace, continued high investment in strategic programs and restructuring actions including layoffs, plant closings and exits from product areas that no longer fit the Company's strategic plans. These restructuring actions resulted in a \$60 million charge to operations in 1986 and accounted for almost one-third of that year's operating loss.

RESULTS OF OPERATIONS

Revenues for 1987 were a record \$1.9 billion, representing a 51% increase over 1986's \$1.3 billion and a 40% increase over 1985's \$1.4 billion level. Strong unit demand and stable prices for microprocessor products contributed to much of this increase, driven primarily by continued strength in the office automation and personal computer markets. A slowdown in the growth of these industries led to the semiconductor industry-wide overcapacity and pricing pressure problems of 1985 and 1986. This pricing pressure was intensified by the "dumping" of certain memory devices on the market by Japanese suppliers. The price declines of 1985 moderated in 1986 and 1986 unit shipments were up from 1985 levels. A recovery in the small-computer market began in 1986 as new office automation products, largely standardized on Intel's microprocessor architecture, gained acceptance resulting in growing demand for Intel's products throughout 1987.

Gross margin of 45% in 1987 was up significantly from the 32% in 1986 and 31% in 1985. The gross margin improvement from 1986 to 1987 is the result of lower product costs and changes in product mix. Average unit prices increased due to the shift to higher margin proprietary products noted above and to the relative stability of prices for commodity devices in 1987. The improvement in product costs from 1986 to 1987 is due to a combination of higher volumes, improved production yields and lower overhead resulting from the restructuring actions taken in 1986. Although production volumes continue to grow, improved productivity, higher factory utilization rates and process improvements have allowed manufacturing spending to grow less rapidly than revenue has grown.

Operating income of \$246 million in 1987 represents an increase of \$441 million over 1986's \$195 million loss and \$306 million over 1985's \$60 million loss. The improvement from 1986 to 1987 was due primarily to the revenue and gross margin increases noted above, the \$60 million restructuring charge in 1986, and lower spending resulting from the downsizing undertaken in 1986, offset by increases in spending associated with improved profitability and increased business levels. Although marketing and administrative expenses of \$358 million in 1987 represent a 15% increase from 1986 and a 25% increase from 1985, these expenses have grown at substantially lower rates than revenue. Research and development expenses of \$260 million represent a 14% increase from 1986 and a 33% increase from

1985, but spending as a percentage of revenue of 14% in 1987 is significantly lower than the 18% in 1986. These increases from 1986 to 1987 are due to increased business levels, continued investments in strategic programs and increased personnel-related costs (salary increases, a special non-recurring employee bonus, profit sharing, and other benefits related to increased profitability).

Interest and other income of \$42 million in 1987 is up \$21 million from 1986 and down \$13 million from 1985. The increase in 1987 over 1986 results primarily from a \$18 million gain in 1987 from the sale of buildings. The decline from 1985 levels is due to a combination of higher average borrowing balances, lower interest rates on investments and a decrease in gains on sale of investments, offset by the gain on the sale of buildings noted above.

The provision for taxes in 1987 increased \$104 million over 1986 due to the return to pretax profitability. Despite the pretax loss for 1986, the provision for foreign income taxes exceeded the benefits provided by tax credits and resulted in a worldwide tax provision in 1986 of \$9 million, versus a benefit of \$7 million in 1985. The provisions (benefit) for taxes for the years 1987, 1986 and 1985 were computed in accordance with APB No. 11 and do not reflect the impact of adopting FASB Statement No. 96. When the new Statement is adopted, the Company expects to record approximately a \$28 million reduction in prior retained earnings related to limitations on recognition of prepaid tax assets.

The extraordinary item for 1987 results from the utilization of tax loss carryforwards to offset income for which U.S., state and foreign tax is provided. The extraordinary item of \$10 million in 1986 was a result of the repayment of approximately \$39 million of short-term and long-term debt owed to an agency of a foreign government.

FINANCIAL CONDITION

Intel's financial condition at December 26, 1987 remains strong. In April 1987, the Company received \$143 million in proceeds from a \$110 million debt offering and related warrant offering. In August the Company received an additional \$57 million in proceeds from another warrant offering. Offsetting these increases was the Company's repurchase of 13,350,000 shares of its Capital Stock from IBM for \$362 million in cash in June. In 1987 capital additions to property, plant and equipment increased substantially to \$302 million from the \$155 million in capital additions in 1986 and \$236 million in 1985 as the Company added productive capacity in 1987 to meet the increases in demand for new products produced on its most advanced processes.

Cash and short-term and long-term investments of \$823 million are up sharply from the \$582 million as of December 27, 1986 as a result of the public offerings noted above, cash generated from operations, and increased borrowings under the Company's commercial paper programs. The Company has not suffered any decline in its investment portfolio as a result of the October stock market crash. The Company has established foreign and domestic lines of credit totaling approximately \$560 million and domestic and euro commercial paper programs under which it is authorized to borrow up to \$500 million. As of December 26, 1987, the Company had short-term borrowings outstanding of \$135.2 million under the lines of credit and \$149.6 million outstanding under the commercial paper programs. The balance of cash and investments, together with the lines of credit and commercial paper programs, will allow the Company to continue supporting strategic investments.

(Thousands-except per share data)

		Dec. 26	Quarter Ended		Mar. 28
			Sept. 26	Jun. 27	
1987					
Net revenues		\$572,488	\$ 501,128	\$438,956	\$394,533
Cost of sales		\$302,410	\$ 259,615	\$237,361	\$244,118
Income before extraordinary item		\$ 72,025	\$ 52,014	\$ 31,493	\$ 20,011 ^(D)
Income per share ^(E)		\$.41	\$.29	\$.17	\$.11
Net income		\$ 95,537	\$ 80,514	\$ 46,493	\$ 25,511 ^(D)
Net income per share ^(E)		\$.55	\$.45	\$.25	\$.14
Market price range	High	\$ 41.83	\$ 38.91	\$ 31.50	\$ 27.17
Capital stock ^{(A)(E)}	Low	\$ 18.00	\$ 29.08	\$ 25.67	\$ 14.00
Market price range	High	\$ 22.88	\$ 19.12	\$ 14.25	\$ 13.88
1995 Warrants ^(A)	Low	\$ 8.00	\$ 13.38	\$ 11.50	\$ 6.12
Market price range	High	\$ 24.38	\$ 21.75	\$ 16.25	\$ 12.50
1992 Warrants ^(A)	Low	\$ 6.75	\$ 14.50	\$ 11.88	\$ 10.50
Market price range	High	\$ 20.25	\$ 16.38	\$ —	\$ —
1988 Warrants ^(A)	Low	\$ 3.38	\$ 11.25	\$ —	\$ —

		Dec. 27	Quarter Ended		Mar. 29
			Sept. 27	Jun. 28	
1986					
Net revenues		\$355,642	\$ 324,137	\$305,178	\$280,054
Cost of sales		\$233,111	\$ 238,944	\$198,113	\$190,512
(Loss) before extraordinary item		\$ (16,422)	\$ (114,210) ^(C)	\$ (22,876)	\$ (29,776)
(Loss) per share ^{(B)(E)}		\$ (.09)	\$ (.65)	\$ (.13)	\$ (.17)
Net (loss)		\$ (16,422)	\$ (114,210) ^(C)	\$ (20,353)	\$ (22,180)
Net (loss) per share ^{(B)(E)}		\$ (.09)	\$ (.65)	\$ (.12)	\$ (.13)
Market price range	High	\$ 15.67	\$ 15.33	\$ 20.67	\$ 21.33
Capital stock ^{(A)(E)}	Low	\$ 12.33	\$ 11.08	\$ 15.00	\$ 17.00
Market price range	High	\$ 6.88	\$ 6.75	\$ 8.38	\$ 7.13
1995 Warrants ^(A)	Low	\$ 5.63	\$ 4.25	\$ 5.63	\$ 5.63

^(A) Intel's capital stock and warrants are traded in the over-the-counter market and are quoted on NASDAQ and in the Wall Street Journal and other newspapers. At December 26, 1987 there were approximately 18,073 holders of capital stock and 197, 72 and 125 holders of the 1995, 1992, and 1988 warrants, respectively. Warrant prices are given only from the time of issuance (May 1985, March 1987, and August 1987 for the 1995, 1992 and 1988 warrants, respectively). Warrant prices have not been restated to reflect the three-for-two stock split effective September 28, 1987 because the stock split had the effect of increasing the number of shares issuable upon the exercise of these warrants. All capital stock and warrant prices are closing prices per the NASDAQ/National Market System. Intel has never paid cash dividends and has no present plans to do so.

^(B) Loss per share for all quarters of 1986 is calculated using the weighted average number of capital shares outstanding for the period. Capital equivalent shares are not included in loss quarters.

^(C) Loss for the quarter ended September 27, 1986 includes a \$60 million charge for restructuring of operations.

^(D) Net income for the quarter ended March 28, 1987 includes a \$17.2 million gain from the sale of a building.

^(E) All capital stock and earnings per share amounts have been restated to reflect the three-for-two stock split effective September 28, 1987.

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FORM 10K

If you would like to receive,
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which will be filed with the
Securities and Exchange
Commission prior to March
25, 1988 for the 1987 year,
please send your request to:
F. Thomas Dunlap, Jr.
Secretary
Intel Corporation
Mail Stop: GR1-21
P.O. Box 58119
Santa Clara,
CA 95052-8119

ANNUAL MEETING

The Intel Annual Meeting of
Shareholders will be held April
20, 1988, at the Marriott Hotel,
Albuquerque, New Mexico.

TRANSFER AGENT AND REGISTRAR

The First National Bank
of Boston
Box 644
Boston, MA 02102
(Shareholders may call (617)
929-5445, with any questions
regarding transfer or
ownership of Intel stock.)

CERTIFIED PUBLIC ACCOUNTANTS

Arthur Young & Company
San Jose, California

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